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Economic and Social Research for Rural America

News

Agricultural and Rural Economy Division
Economic Research Service
U.S. Department of Agriculture

Winter 1991



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Branch, page 10**

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Policy Branch, page 13**

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Economic and Social Research for Rural America

News

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Cover: Spring melt begins on a small stream in the Ruby Mountains, Nevada.

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The New Federal Rural Policy Initiative

By Norm Reid

Since the beginning of last year, when the President announced his Rural Development Initiative, there has been a lot of new activity in the area of rural development. But what's really new in all this? And what does it mean for ERS?



Norm Reid

The President's announcement called for establishing the Working Group on Rural Development (EPC-WGRD) as a permanent, subcabinet-level committee of the Economic Policy Council to coordinate inter-departmental rural development activities; forming State rural development councils; creating a President's Council on Rural America; conducting demonstration programs; improving rural development program targeting; and expanding the availability of rural development information through the Rural Information Center.

Underlying these steps are four principles that together form a new vision about rural development policy. First, the **private economy's central role** in rural economic development is acknowledged. Rural policy will focus on improving the capacity of the private sector to generate more employment and better incomes for rural citizens. Second, widespread **community participation** is seen as important to rural development. The benefits of rural economic development must be shared broadly within rural communities, both to reduce unfair disparities and to establish a more solid foundation for effective community-based rural development. Third, State and local governments and nonprofit organizations, in addition to the private sector, are essential participants in rural economic development. Effective rural development strategies require the active **partnership** of all parties. Finally, the complexity of rural economies, and the long term nature of the development process, create a need for careful **strategies** to achieve planned-for results. Rural development strategies need to look to development over a period of years, perhaps even decades, and they must include the development of rural people and rural institutions, as well as its businesses and public infrastructure.

Acting on these principles, the EPC-WGRD has met quarterly under the chairmanship of Secretary Yeutter to provide overall direction to the initiative. Its first step was to form rural development councils in eight pilot States, with membership by the heads of Federal agencies in each State, key State government officials, and representatives of local governments and the private sector. The Councils will assess their States' needs and develop a strategy for development of their rural economies over the long term. They are charged with implementing that strategy, on a cooperative basis among Federal departments and across governmental levels. What distinguishes the councils from prior efforts is the assignment of a full-time, senior executive director to each of the councils and the two-week program of training that each council member will undergo.

The President's Council on Rural America, announced in December, will hold its first meeting in January. This Council, with high-level membership from corporation presidents and foundation executives and a former governor, will function for two years. It is expected to focus on developing public-private relationships and promoting better public understanding of rural policy issues.

During the last year, the Rural Information Center at the National Agriculture Library has been expanded through active cooperation with the Department of Health and Human Services, the Small Business Administration, and the Farmers Home Administration. It is currently operating on a nationwide basis, providing information on a growing range of topics to rural public officials. The remaining elements of the initiative, demonstration programs and improved targeting, will be implemented during 1991.

The initial response to this initiative has been encouraging. Despite the normal skepticism that accompanies any new effort, a growing number of agencies now appear regard the councils as having a higher probability of success than similar initiatives in the past. The National Governors' Association, participating on behalf of the States, has expressed much enthusiasm, as have individual States. Gradually, other Federal departments and agencies are beginning to see the EPC-WGRD activity as a true cooperative effort among departments, rather than a USDA program to which they are asked to contribute. Many have contributed staff time and resources that in some cases cut deeply into their own programs. When, recently, another department approached USDA to ask how the two departments could cooperate to implement similar loan programs jointly, it became clear that these efforts are beginning to pay off.

Still, reflecting the experimental nature of this undertaking, the EPC-WGRD has established an Outcomes

Monitoring Team to evaluate the process and outcomes of creating the councils and its assessment will be a key element in determining whether additional councils will be created, or what differences may be introduced later into the program. That decision is expected later in 1991. If favorable, additional councils would be introduced in the next fiscal year.

ERS has made a major contribution to the design and implementation of these initiatives. During most of 1991, I have been assigned to the Under Secretary for Small Community and Rural Development's office to help put together support for the initiative. Ken Deavers and John Lee (OA) have played prominent roles in support of the State councils and the Rural Economic Development Institute that will train council members and other Federal staff. ERS contributed \$25,000 in 1990 to help establish the Institute. ARED will develop background statistical reports on each of the pilot States as background material for the Rural Economic Development Institute. And Dave Sears (GDP) is participating as both a member of the team that will evaluate the effort and as monitor for the Washington State Council.

At the same time, ERS has participated in collateral activities that support the general direction now taken by rural policy. Earlier in the year, Dave Sears and John Redman (GDP) provided by background data and advice to 10 States participating in the Council of Governors' Policy Advisors (CGPA's) rural development academy. And Tom Rowley (GDP) and I staffed the National Commission on Agriculture and Rural Development Policy, which just issued its final report. That report, described in detail elsewhere in this issue, is largely supportive of the principles that underlie the Presidential Initiative.

If these initiatives succeed in bringing a more permanent foundation to Federal-State collaboration in rural development, they are likely to have important implications for our future work here in ERS. The prominence ERS has achieved in recent years as a provider of critical research and data about rural development has been reaffirmed through our participation in this initiative. The result is likely to be increased demand for our products. More policymakers, in State level Federal offices, State agencies, and associations representing local governments, private firms, and nonprofit organizations, will become aware of our work and of our potential to contribute to their efforts to understand their rural economies and craft effective strategies for building brighter futures for their rural citizens. I expect to see greater demand for our publications, and a growing number of requests for our staff to serve as consultants in a variety of efforts.

I think the initiative will have implications for what we do as well. In part, I think it will lead us to delve even

deeper into the what of rural America, to understand in greater sectoral and geographic detail just how rural America is made up, and how it works. Our work in creating county classifications has been enormously helpful in the past; we will be hard pressed to discover new ways of informing policymakers about important dimensions through similar devices. At the same time, I expect growing emphasis on the policy relevance of our findings; in particular, there will be more interest in knowing about the effectiveness of various strategies for promoting rural economic development.

All of this is good, both for rural development and for ERS. It should make the 1990's an exciting time.

New Development in the Office of the Director

By Dick Long

Late in December the Organization for Economic Cooperation and Development's governing council approved a budget containing the new rural development program recommended last May by the working group Ken Deavers chaired. Beginning in March, I will head the new program's small core staff as a temporary OECD employee in Paris.



Dick Long

Not coincidentally, Ken's summary of the group's recommendations in the Spring/Summer *ARED NEWS* accurately foretold the shape of the new program, a tribute to his hard work and diplomacy (and stubbornness). The main work of the new program will be to describe and analyze the changes going on in rural areas of the most economically developed countries, and highlight the economic and environmental consequences of alternative approaches to promoting rural development. We will also take the first steps toward building a cross-national rural information base. France, Japan, and the European Economic Community have all promised major contributions in the form of staff or funds to the project.

OECD's rural public management program, just ended, has had a significant payoff. Because the technical cooperation committee which operated the program emphasized public management, its focus blended management and many countries' more specific interest in rural development.

It's contributions on rural public management were important. But even more important, I think, the program drew attention in member countries to cross-national similarities in rural trends and conditions, and especially the limitations of a strictly sectoral view of rural economies. It made OECD the international leader in addressing rural development, recognized as such by the European Community, member countries, and in Eastern Europe, which now seems poised to repeat the rural dislocations experienced in the most developed countries over the last 30 years. It was the OECD program that put rural development on the agenda of the recent economic summits.

Several Americans, Norm Reid and I from ERS, Ted Alter from Penn State and Bob Lovan from the Extension Service, served as consultants to that program, helping write two books it produced. Ken was one of its original organizers and its intellectual leader for many years.

In February I will be leaving ERS, temporarily. Challenge is the word used in cases like this and I think it fits. It is certain to me that I am leaving (for a while) a fine organization, ERS -- especially ARED. My first five years here have been among the best in my professional life, largely I think, because the Agency has so many good people who believe in their part in our mission, and do their work with enthusiasm.

RDP Best Article Award

By Sara Mazie

I am delighted to announce that the *RDP* editorial board selected Calvin Beale's (Pop) and Glen Fuguitt's article "Decade of Pessimistic Nonmetro Population Trends Ends

on Optimistic Note," as the best ERS authored article in Volume 6 of *Rural Development Perspectives*. They wrote it together while Fuguitt was resident at ERS on sabbatical from the University of Wisconsin. Beale and Fuguitt describe how trends in migration and fertility rates have contributed in tandem to very slow nonmetro population growth over the decades. Just as important



Sara Mazie

to understanding rural America is their discussion of how regional variation within overall trends necessitates tailoring policy to local circumstances. While on average

nonmetro areas had very little net outmigration over the decade and therefore grew at just about their rate of natural increase (births minus deaths), many farm dependent counties lost population. Meanwhile, counties with amenities grew faster than the national average. The difference flows principally from vastly different migration experiences, with farm counties losing a relatively high percentage of their young people and the high amenity retirement counties attracting large numbers of people, young and old.

This annual award received by Beale is part of the Economic Research Service's program to recognize staff achievement and excellence. Each year the editorial board selects the best ERS authored article during the previous year. Actually it is not an easy task since the competition is stiff and articles that appear in the journal in the course of a year vary significantly in terms of the nature of the research on which they report and what the authors are trying to achieve. But all are appropriate for the journal, and I'd like to think the variety makes the journal more interesting to read.

As always, we encourage you to submit manuscripts to *RDP*. For the most part, don't worry about submitting ones that were written with a different audience in mind. Most submissions are. In our blind review process, we are looking for manuscripts that are based on technically sound research that is related in some manner to rural development. Once the editorial board commissions an article based on the submitted manuscript, we help the authors adapt it to *RDP*. If you have any questions about the appropriateness of a manuscript or the publication process, please don't hesitate to call me at 202/219-0520.

OFFICE OF THE DIRECTOR

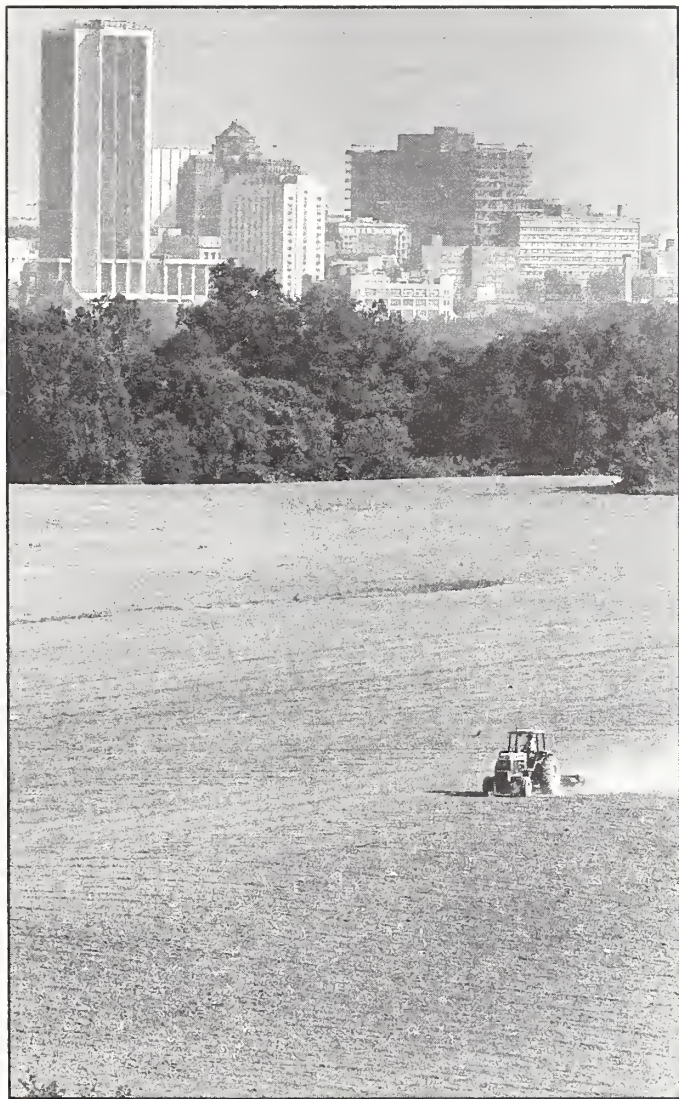
Publications

The National Commission on Agriculture and Rural Development Policy completed its year-long look at rural development problems by issuing its final report, *Future Directions in Rural Development Policy*, in December. During 1990, the Commission traveled widely throughout rural parts of the United States to study rural problems and identify innovative approaches to rural development. The Commission's report called for:

- A review of the effects of all Federal Government policies on rural areas;
- Better information about rural conditions and rural development strategies;

- Comprehensive treatment of rural development;
- A strategic approach to rural development policy;
- Better cooperation among Federal agencies, and between the Federal Government and States, local governments, and the private and nonprofit sectors;
- Improved flexibility of policies for rural areas;
- A willingness to innovate and experiment to identify creative and effective approaches to rural development;
- Making education a major component of rural development policy.

Norman Reid and Tom Rowley (GDP) served as Commission Coordinator and Assistant Coordinator. Copies of the Commission's report on rural development may be obtained from Norman Reid, Room 328, 1301 New York Avenue, N.W. (202-219-0520).



An urban/rural landscape.

Papers Presented & Meetings Attended

Sara Mazie spoke at the Farm Credit Leadership Conference, in September in Des Moines, Iowa. The conference, sponsored by the Farm Credit Service (FCS) of Iowa was attended by leaders in the Iowa farming community and members of the FCS staff. Sara talked about the relationship of the agriculture sector to the rural economy, the potential for agriculture policy to promote rural development and the recent performance of the rural economy. Though most conference speakers focused on internal farming issues, the FCS organizers were committed to having the rural context of farming discussed.

Organizing meetings of the eight pilot State Rural Development Councils were held during October and November in Pierre, SD, Augusta, ME, Columbia, SC, Topeka, KS, Jackson, MS, Austin, TX, Seattle, WA, and Portland, OR. John Lee (OA), Ken Deavers, and Dick Long provided briefings to the Council members on conditions in rural America. Norman Reid, who assisted in organizing the meetings, attended the South Dakota, Texas, Washington, and Oregon meetings. David Sears (GDP), who will be serving as the Economic Policy Council Working Group on Rural Development's monitor for the Washington State Rural Development Council participated in the Washington meeting. Following the organizing meetings, the Councils will establish a management structure. In 1991, each Council will be provided with a full-time executive director to assist it in its activities.

On February 7, Sara Mazie and Tom Carlin (FRE) addressed the fellows of the 1991 Leadership Development Program sponsored by the National Center for Food and Agricultural Policy at Resources for the Future in Washington, DC. Sara presented a profile of rural America and Tom discussed the agriculture sector.

Briefings & Miscellaneous

The cover story of the September 1990 issue of *Governing* addresses rural development challenges facing small communities in the Great Plains. A principal theme is that rural communities will survive if they create new economic niches, and a climate of substantial community involvement in development. Norman Reid is quoted in the article which cites ERS as an information resource about rural economic development in the 1980's. Reid also provided background information and referrals to the reporter.

Professor Carol Borg of Fisk University, a historically black college in Nashville, TN visited Dick Long on October 1, to discuss a project Fisk is carrying out under contract for the Tennessee Economic Development

Department. Based on observation in the chapter on rural areas that Long and Ken Deavers prepared for the Tennessee Economic Development Strategy, Fisk is exploring why Tennessee's recreation and retirement destination rural counties did not do as well in the 1980's as such counties nationally. Borg and Long also discussed ERS's interest in having Fisk students consider the Agency as a potential employer.

Norman Reid and David Sears (GDP) participated in the first Rural Economic Development Institute at Williamsburg, VA, in October. The week-long Institute, organized by the University of Wisconsin, trained Federal staff from more than a dozen departments and agencies in the theory of rural development and briefed them on the principal issues facing rural America today. Ken Deavers participated as a member of the Institute faculty. Attending agencies are participating in the Economic Policy Council Working Group on Rural Development's implementation of the President's Rural Development Initiative. In March, a week-long Institute will be conducted to train members of the State Rural Development Councils formed in eight pilot States. A followup week of training for these councils will also take place in June.

Sara Mazie served on a NEA review panel to select a cooperator for the Design Art Program's new rural leadership initiative. The objective of the initiative is to encourage better integration of design issues into rural development efforts. The selected cooperator will run training conferences for rural technical assistance providers to learn about the role good design can play in community development and ways design concerns can be included in development efforts.

Dick Long briefed about 75 Forest Service personnel from Washington and the Denver Region on current rural conditions and economic trends at a Denver meeting on October 29. The group was assembled to prepare a plan for implementing the Forest Service's rural development strategy which is being mounted in response to the Economic Policy Council's rural development initiative.

Sara Mazie made a presentation on the interrelationship between economic and human resource development at a seminar held in Boston on November 17. Sponsored by the project, "Linking the Public and Private Sectors to Support the Rural Family," at the School of Social Welfare, the State University of New York (SUNY) Albany, she discussed economic, education and training issues as they relate to rural areas. Sara also provided the context for considering specific strategies to help rural families, particularly disadvantaged ones, improve their social and economic well-being.

On December 6, Norman Reid briefed the Department of Commerce's Federal/State initiative Committee on the Presidential Initiative. Also on the agenda was Daniel Albritton, Director of NOAA's Aeronomy Laboratory in Denver, who reported on the rapid rise of ozone levels in some rural areas. In rural areas, nitrous oxides combine with naturally occurring hydrocarbons to cause levels of ozone that approach or exceed unsafe levels. Based on current evidence, Albritton believes the rural ozone issue will reach front pages in the next 3-5 years.

IN THIS ISSUE

RDP

The October 1990 issue of *RDP* contains:

"Higher Education No Panacea for Declining Rural Economies," by Molly S. Killian and Timothy S. Parker. Everybody knows you need a good education to get a good job. Some apply the same principle to local development policies, reasoning that a well-educated workforce will translate to a thriving local economy. But things seldom work out so neatly. Education of the workforce seems to have been only a minor factor in rural growth in the 1980's.

"Rural Counties Lead Urban in Education Spending, but Is That Enough?," by Anicca Jansen. Rural counties, on average, spend more on their youngsters' education than urban counties do. Trouble is, just counting beans (or dollars) doesn't give much measure of the amount of learning going on. A further complication is the amount of variation around the average, especially in rural areas.

"Rural Job Growth Lags its Apparent Potential," by Timothy S. Parker. Rural job growth always seems to amount to less than the sum of economic factors would suggest. Over the 1970's and 1980's, in good times and in bad, there seems to have been a "rural factor" at work that held growth down.

"Rethinking the Rural Credit Gap," by Charles Morris and Mark Drabenstott. Rural lending grew only half as fast in the 1980's as it did in the 1970's and only half as fast as urban lending in the 1980's. To remedy that decline, sometimes attributed to overly cautious banks, new government credit programs have been proposed. But if the decline is due to other reasons, as this article suggests, taxpayers may be stuck with a big bill to pay for those new programs.

"Small Farmers Survived 1980's Fiscal Stress Better than Large Farmers," by Gregory D. Hanson and **John E. Jinkins**. Low debt levels and off-farm income helped small farmers weather the 1980's. Large farmers too now seem inclined to put family members to work off the farm to supplement the farm income. That strategy works only, of course, when there are off-farm jobs nearby, not always the case in sparsely populated farm country.

"The Elderly's Income and Rural Development: Some Cautions," by **Robert A. Hoppe**. An influx of elderly helps some communities grow. But there are limits, aside from the fact that not all communities have the amenities that the elderly want. Relatively few of the elderly population actually move. And, many communities will be too busy caring for the elderly already there to try to attract more.

"Alternative Uses of Water in Rural Areas," by **LeRoy Hansen**. The way water rights evolved in the West may have discouraged efforts to conserve, thereby pressuring downstream users. A more market-oriented approach to allocating water might ease some of the strains among competing uses while enhancing wildlife habitat, contributing to recreational uses of water, and fostering water-related development without depriving anyone of their water needs.

"Community Stability, Rural Development, and the Forest Service," by **Dennis Roth**. Since the turn of the century, USDA's Forest Service has influenced rural economies by managing the harvest of timber from Federal lands to avoid the boom-bust cycles of timber towns that relied on private property logging. The Forest Service goal of "community stability," which was not necessarily synonymous with rural development, is now undergoing some rethinking.

Rural Indicators: "Nonmetro/Metro Children in Similar Family Circumstances, But Economic Differences Persist," by **Carolyn Rogers**.

Book Reviews: "American Indians: The First of This Land," reviewed by **Jerome Stam**; "Population and Community in Rural America," reviewed by **Linda L. Swanson**; and, "Rural and Small Town America," reviewed by **Glenn Nelson**.

Short Subjects: "Setting Up a Farm Roadside Stand"; "Minnesota Town Helps Citizens Recycle Yard Waste"; "Guide to Rural Data"; "Bridging Rural Credit Gaps"; and "A Plethora of Approaches to Economic Development in Small Communities," compiled by **Louise Stutzman**.

Rural Development Perspectives

Articles in upcoming issues of *RDP* include:

- What the Job Opportunities and Basic Skills Training (JOBS) program means for rural America.
- The dramatic exodus of Blacks from farming.
- How did rural Blacks and Hispanic Workers Fare in the 1980's?
- The potential of state enterprise zones for rural development.
- A comparison of rural and urban differences in long-term poverty among Blacks.
- Use of the state-administered Community Block Grant (CDBG) program for rural economic development.
- What's happening in rural credit markets.

Rural Conditions and Trends

Highlights of the Fall 1990, *Rural Conditions and Trends*:

OVERVIEW: "Rural Economy on Hold," by **Sara Mazie**. Rural unemployment remains steady despite a halt in job growth. Questions over the direction of real wages and income continue.

NATIONAL ECONOMIC CONDITIONS: "Economic Growth Slows and Inflation Continues," by **Karen Hamrick** and **Elizabeth Mack**. Economic expansion continues at a slower rate than previously estimated. Inflation pressures have increased due to the oil price shock.

EMPLOYMENT: "Rural Employment Growth at Near Standstill," by **Tim Parker**. Second-quarter 1990 rural employment growth fell to near zero, as a stalling national economy hurt rural areas. Rural employment growth among youths and older workers fell compared with the same period in 1989. However, rural labor force participation remained at a near-record high.

UNEMPLOYMENT: "Rural Unemployment Shows No Change in Second Quarter of 1990," by **Leslie Whitener**. Rural unemployment rates held steady between the second quarter of 1989 and 1990, after several years of consistent decline. About the same number of rural residents were looking for work in mid-1990 as a year before.

Rural Conditions and Trends is published four times per year. Subscription price is \$14 for 1 year. Send check or money order to ERS-NASS Box 1608, Rockville, MD 20849-1608, payable to ERS-NASS. You can charge your subscription to VISA or MasterCard. Use the toll-free number 1-800-999-6779 to start your subscription.

NATIONAL ECONOMY AND HISTORY BRANCH

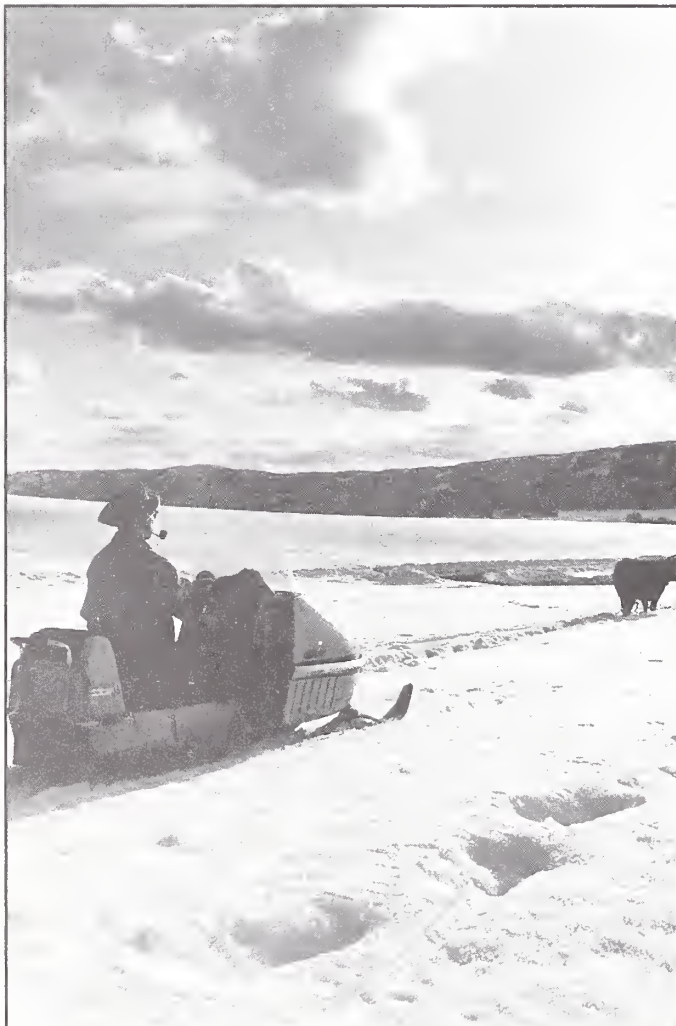
View from the Branch

by Tom Hady

Following the precedent of last year, here's my second annual traditional roundup of news from old ERS'rs, taken from the Hady Christmas cards:

Ron Bird - writes that he's ok, but provides no other details.

Marlys Nelson - nearly was burned out last year by a grass fire that just missed their house; Nathan (age 3) broke his arm, and both Nathan and his sister Moriah (5) had chicken pox--all before the end of January. After that, things seem to have settled down. Old tractors seem to have become a hobby.



A winter scene in Big Sky country.

Ted Hein and Del - spent two weeks in Europe during the summer. They will spend the winter in Florida. Warmer than Minnesota.

Peter Hanson and Edna - moved to Minnesota this year, where they are near a daughter. They live in retirement apartment in Edina, and Pete says "Much as I hate to admit it, it's a pleasure not to have to mow a lawn, or clean a basement, or shovel snow."

Burt Sundquist and Marcia - seem to be just plain busy. Canada twice last summer, plus time at their lake place. Burt is planning work in Africa this winter.

Max Jordan and Mary - both have a number of church-related jobs. Max says "The muddy bear prints on our rec-room window testify to our isolation here on the mountain. . . Mary is a pro on the chain saw and the splitter. . . We feed 7 to 9 deer every day." Max worked as a crew leader for the 1990 Census.

John Kuehn - is teaching in the Department of Marketing at Missouri.

Leon Perkinson - says "We are in the same place doing much of the same things as we have in the past several years. With 2 in college, it's difficult to do otherwise." He's appraising real estate and teaching others how to do it; Sue keeps the paper flowing and the bills collected. That has interfered with her time for art, but she still has time to do outstanding Christmas cards.

Carol Meeks - is acting department head this year, and just back from two weeks in Norway and France, giving papers. Kathy, now a high school freshman and still a dedicated gymnast, went along. "We had no clothes for the first 4 days in Norway." Must have been cold.

Lloyd Bender - was in town recently. Sue has retired and Lloyd is making noises about doing the same.

Publications

Hady, Thomas F. and Peggy J. Ross (HRI), "Nonmetro Counties Less Dependent on Farming, Manufacturing and Mining," *Rural Development Perspectives*, Vol. 6, Issue 3, Jun-Sept, 1990, pp. 43-45. Using county delineations based on the 1983 metro redesignation, describes changes in the numbers of counties in each type. The numbers of counties in farming, manufacturing and mining declined; those in government, retirement and the unclassified counties rose.

Hady, Thomas F., "The Federal Tax Changes," *Choices*, Vol. 5., No. 4, Fourth Quarter, 1990, pp. 22-23. The new federal tax changes have relatively little effect on taxpayers in income brackets below \$100 thousand or so. Roughly 45 percent of the increased revenues will come from the \$200-thousand-plus group. That's unusual. Normally, most of the revenue comes from the middle income groups.

National Aggregate Analysis Section

Publications

In the September/October 1990 issue of *FATUS*, the article, "U.S. Trade Benefits Economy" by Bill Edmondson and Michelle Robinson, shows the effect of agricultural trade on the U.S. economy. In 1989, \$40 billion of agricultural exports generated employment, income and purchasing power in both the farm and nonfarm sectors of the economy. Each dollar received from these exports stimulated another \$1.52 of output in the economy leading to an additional \$61 billion generated in supporting activities. Nonfarm sectors received approximately 83 percent of this additional activity.

The agricultural exports supported 1,055,000 full-time civilian workers. More than 426,000 U.S. farmworkers, 13 percent of the farm labor force, were involved in the production of export commodities.

The Summer, 1990 *Journal of Agricultural Economics Research* contains an article by Ronald A. Babula, David A. Bessler, (Texas A & M), and Gerald E. Schluter, "Poultry Related Price Transmissions and Structural Change Since the 1950's," The authors explored the dynamics of the corn-poultry-poultry meat price transmission using a vector autoregression analysis of corn price, farm poultry price, and consumer poultry (meat) price for two periods, a mid-50's to late 60's period and an early 70's to mid-80's period. Statistically significant evidence suggests a change in the dynamics of these price transmissions between the two periods. Corn price increases are now more likely to be passed on, and more quickly, as price increases to consumers. Further, evidence also suggests that, since the early period, corn has become an increasing important factor in explaining poultry price. A significant structural market change has occurred for the poultry industry, particularly at the retail level.

Economic Systems Research, Vol. 2 Number 3, contains an article, "Growth and Changes in the Structure of the US Agricultural Economy, 1972-82: An Input-Output Perspective" by Chinkook Lee. The paper analyzes growth and structural change in the agricultural sectors of the U.S. economy from the perspective of how changes in agricultural output can be apportioned between: (1) the

effect of growth and structural changes in domestic final demand and exports; (2) changes in the domestic supply ratios of sector outputs; and (3) interdependencies between industries. The analysis found that changes in the production process accounted for minimal changes in output levels.

The October *Agricultural Outlook*, contains an article "Dynamics of Oil and Agricultural Inputs Prices" by Ron Babula and Agapi Somwaru (DSC). In it a vector autoregression of monthly crude oil, industrial chemical, agricultural chemical, and fertilizer prices was modeled. A one-time rise in crude oil price was then imposed on the model. Agricultural chemical and fertilizer prices respond to each percent rise in crude oil price by about one-fourth of a percent. These response patterns occurred over a 27-28 month period.

In the November *Agricultural Outlook*, Ron Babula, David Bessler, Texas A & M, and Gerald Schluter had an article, "New Corn & Poultry Price Dynamics." The above JAER publication provided the basis for this article.

Papers Presented & Meetings Attended

Chinkook Lee was scheduled to present a paper titled, "An Agricultural Development Perspective on Trade Friction: The Case of Three Asian Countries," at the International Conference on Korea Studies, Osaka, Japan, August 2-6, 1990. Chin was attending the conference, a first time joint meeting with Korean scholars from South Korea, North Korea, Japan, the United States, and the Soviet Union when scheduling conflicts prevented his paper from being presented. The meeting organizers asked Dr. Lee to discuss the preliminary work he has been conducting with David Culver (FAS), World Board.

At the Atlantic Economic Society in Williamsburg, Andy Bernat presented a paper, "Applying Input-Output Models to Natural Resource Problems: The Conservation Reserve Program" co-authored with Tom Johnson of V.P.I. and Gerald Schluter discussed a paper, "Agriculture Policy Evaluation Using IMPLAN" by L. Eric Siverts, Greg Alward, and Wilbur Maki. Their participation was one in a series of sessions, "Natural Resource: Analytical Systems" which Thyrele Robertson of the Soil Conservation Service organized to discuss the potential of integrating a range of economic models from site specific soil loss models to economywide economic impact models in an attempt to measure the effect of SCS programs on national and regional water quality and economic activity.

On Friday, October 19, Chinkook Lee discussed a paper, "Is a Beef Deficiency Payment Pareto-superior in South Korea?" by Gerald Nelson and Yong K. Lee, (University of

Illinois), at the Korea-American Economic Society Meetings in Washington D.C.

Briefings & Miscellaneous

Dr. David Bessler, Department of Agricultural Economics, Texas A&M visited the *National Aggregate Analysis* section in September in conjunction with a cooperative agreement to help to choose/formulate CGE coefficients and trade-related elasticities for use in the ERS CGE model using state-of-the-art time series and cointegration techniques on monthly international prices, export sales, export shipments, and exchange rates for the US wheat, corn, soybeans, and cotton export markets.

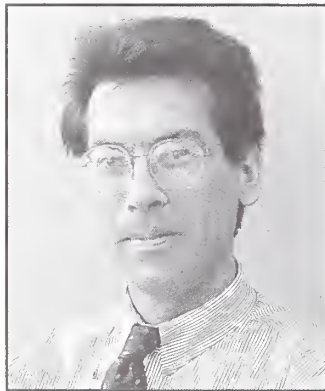
Dr. Bessler provided technical backup for Ron Babula's ERS briefing on the findings of the article, "Poultry-Related Price Transmissions and Structural Change Since the 1950's," published in a recent issue of the *Journal of Agricultural Economics Research* and authored by Babula, Bessler, and Gerald Schluter.

On Monday, October 15, Professor Dean Schreiner, Oklahoma State University discussed the estimation of and use of Social Accounting Matrices in small area analysis with Gerald Schluter, Chinkook Lee, Andy Bernat, Ken Hanson and Catherine Murphy.

Dr. Maurcen Kilkenny, Department of Economics, Pennsylvania State University, visited the section on Friday, November 2, to consult on several cooperative agreement related projects and individual researcher work projects.

Personnel

Arthur Wiese, having recently obtained his Ph.D. from the Department of Agricultural and Applied Economics, University of Minnesota, joined the National Aggregate Analysis Section during the first part of October, 1990. He will contribute to the ongoing development and application of the section's computable general equilibrium modeling effort.



Arthur Wiese

Arthur's dissertation, "An Analysis of Land Use Change at the Rural-Urban Fringe: A Theoretical and Empirical Treatment" involved enhancing (generalizing) existing theory relating to the determinants of land use change at the rural-urban boundary as well as empirical tests of it.

Agricultural and Rural History Section

Publications

The Section's cooperative agreements with Florida A&M University bore fruit again this fall with the publication of "*Historically Black Land-Grant Institutions and the Development of Agriculture and Home Economics, 1890-1990*," by Leedell W. Neyland. Dr. Neyland's book, published by the Florida A&M University Foundation, is both a history of agricultural education, research, and extension at the 1890 universities and a history of USDA's relationship with the 1890's. It is a solid work that will undoubtedly become the standard reference on the subject.

Dennis Roth has revised the *Chronological Landmarks in American Agriculture (AIB 425)*, bringing this comprehensive listing of important events in agricultural history up to date. Previous editions of the chronology have been very popular and we expect this one to be widely distributed.

Papers Presented & Meetings Attended

Several Section members attended the DC Historians Luncheon on November 9, a gathering that facilitates interchange between academic and government historians. Vivian Wiser has been active on the Archives Committee of the Society for History in the Federal Government, which scored a success recently in convincing the National Archives to stop moving its USDA material from the downtown Archives, a policy that was making it difficult for ERS and other historians to use USDA records.

Personnel

The Agricultural and Rural History Section is pleased to

welcome Ann Effland, who joined the Section October 24. Ann has just had her dissertation accepted by Iowa State University, where she went through the comprehensive program in agricultural and rural history offered there. Ann's dissertation is on federal policy toward migrant agricultural labor, which she approached from a national point of view with Iowa as a



Ann Effland

special case study. Ann received her B.A. in History from Hood College and a M.A. in History from West Virginia

University. While at Iowa State, she also picked up experience in editing university press publications. Ann's background and training makes her a welcome addition of the Section.

Two former summer employees, **Chyrise Thomas** and **Ted Huang**, returned over the Christmas period. They did a variety of file work, computer indexing, and microfilming.

Macroeconomics Section

Research & Analysis

The macroeconomics section has continued to provide macroeconomic information to analysts and policymakers within USDA and to the public in general. Situation and outlook analysis concerning the macroeconomy and the effects on agriculture and the rural economy has been particularly challenging recently. **John Kitchen** and **Beth Mack** have concentrated their efforts on the situation and outlook work.

As usual, the section has contributed general economy articles to several different USDA and ERS periodicals. These articles have tended to focus on the effects of the oil price shock on real activity and inflation, but also on the macroeconomic slowdown and the end of the expansionary phase of the business cycle. The situation and outlook analysis suggests that the macroeconomic downturn should be somewhat mild by historical standards, but that significant downside risks exist. Agriculture should be spared disproportionately negative effects because of relatively low interest rates, the low foreign exchange value of the dollar, and the outlook for continued improvement in net exports.

Research continues to be conducted on a wide variety of issues pertaining to domestic and international macroeconomic activity and policy and macroeconomic linkages with agriculture and the rural economy.

Karen Hamrick's preliminary research on macroeconomic linkages to nonmetro unemployment suggests the following:

- Rural areas are more sensitive to changes in interest rates and exchange rates than metro areas;
- An increase in interest rates or the value of the dollar tends to push up the nonmetro unemployment rate relative to the metro unemployment rate;
- Increases in inflation tend to decrease the nonmetro-metro unemployment rate gap;

There is considerable variation across regions in the effects of variables on the nonmetro-metro gap. For example, the price of crude oil had different effects on the unemployment rate in different regions; while an increase in the oil price decreased the gap in the West, it increased the gap in the Northeast, as might be expected. Another difference is in the length of time before macroeconomic conditions affect a region's nonmetro-metro unemployment gap. Regions dominated by resource-based industries tend to take longer to be affected, while those dominated by manufacturing react fairly quickly to current conditions.

Paul Sundell and **Mark Denbaly** are expanding their bond pricing model presented at the Southern Regional Science Association meetings (See *ARED News* Spring/Summer 1990). Their expanded model will allow for variable risk premiums. The model may also be used for forecasting changes in bond yields. Plans for future research include applications of the model to agricultural assets.

Upcoming Events

Paul Sundell has been investigating loan pricing models and their relationship to agricultural and nonagricultural bank lending. Paul has postulated models for loan pricing at agricultural and nonagricultural banks. Among the factors used to explain agricultural loan rate pricing are: borrower default risk; liquidity and profitability; and competitive pressures in loan markets. A staff report on this research and modelling effort is planned for early 1991.

John Kitchen has been working with David Orden of Virginia Polytechnic Institute on a staff report that will be titled "Some Observations on Fiscal Policy Effects on Agriculture and the Rural Economy."

FINANCE AND DEVELOPMENT POLICY BRANCH

View from the Branch

by Pat Sullivan

It's January 2nd and I'm already coming down with my first cold of the year, which gives you an idea of how my year is going. But 1991 looks like it'll be a good year for the branch. The branch is nearly fully staffed (although cuts had as much to do with that as hiring did) and our analytic base continues to show marked improvement. During the first quarter of fiscal 1991, the branch staff

published over 10 monographs or articles, and submitted another 15 for future publication. Two long awaited reports in the Rural Development Strategies series, dealing with financial markets and infrastructure, were finally published last month. The final report of the National Commission on Agriculture and Rural Development was also published last month with the help of Norm Reid (OD) and Tom Rowley. The premier issue of *Rural Conditions and Trends: Special Report on Financial Institutions*, coordinated by Cliff Rossi, is with the editors and should be on the streets before too long. And other high profile reports dealing with such issues as Federal tax policy, farm bankruptcies, rural government services, rural development policy, and the operations of rural lending institutions should be completed as the year progresses.

As has been the case for several years now, there is no end of important research waiting to be tackled by the branch. As the condition of the Nation's financial institutions worsens, continued analysis and monitoring of events in that industry becomes even more important to understanding effects on rural and agricultural credit markets. The Farm, Agriculture, Conservation and Trade Act of 1990 made a number of important changes affecting rural and agricultural financial markets. The Treasury Department is preparing to release a series of recommendations for overhauling the U.S. financial system which, if enacted, are sure to affect rural lending institutions and those who rely on them for financial services. In the broader rural development arena, the 1990 Act continues rejuvenating the Federal role in the rural development process, started earlier by the President's Rural Development Initiative. The State Governments continue to look for ways to assist rural communities with their development efforts, and with Congress back in session there will be no shortage of tax proposals, both new and old, to analyze.

So as we begin the new year, we've got an ambitious research program underway, a steady stream of new policy issues to deal with, and as strong a resource base as budget constraints allow. To capitalize on all of this good stuff, we are undertaking an in-depth evaluation of the future direction of the branch's research and S&O program. Each year we go through an annual planning process to chart the course of our research over the coming year or two. While useful, its incremental nature is not conducive to addressing fundamental questions about our purpose. To compliment our FY-91 work plans, over the next couple months we will be assessing our strengths and weaknesses to better define our research role vis-a-vis other research and policy analysis organizations. The end product should be a 5-year research plan that will probably be out of date by the time the ink is dry. But the real goal of this group activity is to develop a common view among the branch staff and division management of what we should be concentrating on and

who we should be serving as economic conditions and policies continue to change. If it works, not even the feeling that Desert Shield has taken up residence in my sinus cavities could dampen my optimism for 1991.

Research & Analysis

Cliff Rossi submitted the paper, "Implications of FIRREA on Thrift Industry Cost Structure" to be presented at the Federal Reserve Bank of Chicago's Bank Structure and Competition Conference in May. The analysis provides an empirical assessment of certain provisions in recent financial institutions reform legislation on thrift industry efficiency. Research results indicate that economies of scale in the thrift industry should stimulate merger activity, sale of thrift assets by capital deficient firms is not an efficient strategy, and new rules designed to force thrifts to specialize in mortgage assets should promote S&L efficiency.

Upcoming Events

In February, Cliff Rossi will be presenting a paper, "Determinants of Undercapitalized Thrifts" at a symposium on problems in management and regulation of rural financial institutions for the 1991 Decision Sciences Institute meetings. The study presents an empirical analysis of the determinants of capitalization of thrifts with the objective of identifying types of firms unlikely to meet the new capital standards. Pat Sullivan will be chairing the symposium.

Personnel

As part of the reorganization of the division's support personnel, Tina Terry and Toshiro Settles have been assigned to the branch office and will be Office Automation Assistants as soon as OPM approves the job series. Gwen Coleman, previously the branch secretary, has assumed the role of Branch Office Manager, responsible for coordinating the flow of work to the branch support staff.

Agricultural Finance Section

Research & Analysis

Dave Hopkins (DSC) and Robert Collender have successfully converted Farm Credit System (FCS) call report data, acquired from the Farm Credit Administration, into SAS databases. These databases will support research on the economic behavior of FCS institutions and should

CHICAGO SOYBEANS

	JULY	MARCH	MAY	JULY	AUG	SEPT	NOV	JAN	MARCH
CLOSE	61 1/2	62 1/2	62 1/2	62 1/2	61 1/2	60 1/2	61 1/2	61 1/2	61 1/2
OPEN	61 1/4	61 1/2	62 1/2	62 1/2	61 1/2	60 1/2	61 1/2	61 1/2	61 1/2
HIGH	61 1/4	62 1/2	63 1/2	63 1/2	61 1/2	60 1/2	61 1/2	61 1/2	61 1/2
LOW	61 1/4	61 1/2	62 1/2	62 1/2	61 1/2	60 1/2	61 1/2	61 1/2	61 1/2

CHICAGO SOYBEAN OIL

	MARCH	MAY	JULY	AUG	SEPT	OCT	DEC
CLOSE	31 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2
OPEN	31 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2
HIGH	31 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2
LOW	31 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2	32 1/2

prove to be very useful for much of the branch's staff work and situation and outlook analysis.

Steve Koenig contributed to a forthcoming *Agricultural Information Bulletin* that reviews provisions of the Food, Agriculture, Conservation, and Trade Act of 1990. Steve was responsible for reviewing and analyzing the legislation's agricultural credit provisions. The agricultural credit title made numerous changes to the operation of farmer programs administered by the Farmers Home Administration (FmHA), as well as making some

Banks and credit unions are well positioned to survive a recession with strong capital positions and low levels of nonperforming loans. The same cannot be said of thrifts with more than 10 percent of rural thrifts currently considered problem institutions.

"Farm Banks in the Energy Belt: A Double Whammy?" by **Douglas G. Duncan**, Gregory R. Gajewski and M. Ellen Burkhart (both formerly with the Section) was published in the 1990 issue of the *Agricultural Finance Review* (Vol. 50). The paper shows that the simultaneous contractions in the farm and energy sectors did not, for the most part, hit farm banks in energy-dependent areas as hard as their nonfarm regional counterparts. Loan losses were more severe for banks in energy-dependent areas that concentrated on lending to the nonfarm sectors. However, farm banks in the "energy belt" performed less well than farm banks elsewhere. A simple regression model is used to establish an empirical link between bank nonperforming-loan levels and farm income. Financial ratio analysis is then used to review the performance of banks by type and region during 1982-1988.

"Which Banks Will Participate in Farmer Mac," by **Steven R. Koenig** and **Clifford V. Rossi** was published in the 1990 issue of *Agricultural Finance Review* (Vol. 50). The authors examine the characteristics of commercial banks to determine how they might participate in the new market for agricultural and rural-housing mortgages. Participation in the new market requires the purchase of voting stock in the Farmer Mac corporation; banks are the largest holders of this stock. Stockholding banks were found to be concentrated in the Upper Midwest, which has important implications for the sensitivity of securities to that region's economic health. Participants were also found to be small and specialized in agricultural lending. Also, participating banks were found to be in generally favorable financial condition. The study suggests a stable but not necessarily large secondary market will develop.

George Wallace, **Doug Duncan**, and **Jim Mikesell** authored "State Credit Program Subsidies for Agricultural Producers," which appeared in the December issue of *Agricultural Income and Finance: Situation and Outlook Report* (AFO-39). Based on information from a mail survey of State programs conducted last year, the authors conclude that farm credit programs are of continuing interest in numerous States. The number of States offering credit assistance to farmers, the volume of loans placed, and the value of credit subsidies all increased from 1988 to 1989.

Papers Presented & Meetings Attended

"Testing for Prima Facie Causality Between Two Cattle Markets" was presented by **David Bessler** (Texas A&M

University) during the October meeting of the Atlantic Economic Society in Williamsburg, Virginia. The paper was coauthored with **Ted Covey**. The premise underlying the arguments of both opponents and proponents of futures trading is that a cause and effect relationship exists between spot and futures markets. The tests indicated that the futures price for live cattle influences the next day's cattle cash price.

"A GSE Near Miss and Agency Security Yield Spread Response" was presented by **Douglas G. Duncan** at the Southern Finance Association conference in Savannah, Georgia in November. The paper, coauthored by **Michael Singer** (Texas A&M University), evaluated occurrences in Government and agency bond markets during the 6 months prior to and the 6 months after the September 4, 1985 Farm Credit System (FCS) announcement that it was seeking a Federal bailout. Six-month, 1-, 3-, and 5-year maturity Farm Credit bonds were matched with similar maturity Treasury notes and the spread in their yields were evaluated on a daily basis over the year. Subsequent to the FCS announcement of problems, statistically significant shifts in the spread occurred at each maturity with the largest increase in the nearest term maturity. Spread volatility also increased.

Bonds of two other agencies, Federal National Mortgage Association and Federal Home Loan Bank, with 1- and 3-year maturities were analyzed to determine if there were spillover effects from the FCS problems to other securities with agency status. Statistically significant shifts occurred in spreads of both agencies subsequent to the announcement of FCS problems.

There were two main conclusions drawn. First, the greater increase in spreads of the near term maturity bonds was indicative of a "crisis at maturity". In this case, bondholders may have believed that FCS bonds were backed by the Federal Government, and thus would not ultimately default, but that redemption might not occur at the promised time thus reducing actual yield below promised yield. Second, as spreads of agency securities of all maturities increased, there was a "flight to quality" among bondholders as they awaited Congress' resolution of FCS problems.

"Financial Reform and Agriculture in the Soviet Union" was presented by **Robert Collender** at the American Association for the Advancement of Slavic Studies meeting in Wash., DC in October. The paper argues that financial reforms proposed in the 500 day plan to transform the Soviet Union into a market economy: (1) are internally inconsistent, (2) ensure the emergence of a weak financial sector, especially regarding agriculture, and (3) this weakness will slow agricultural reform and development and negatively affect technological progress and income.

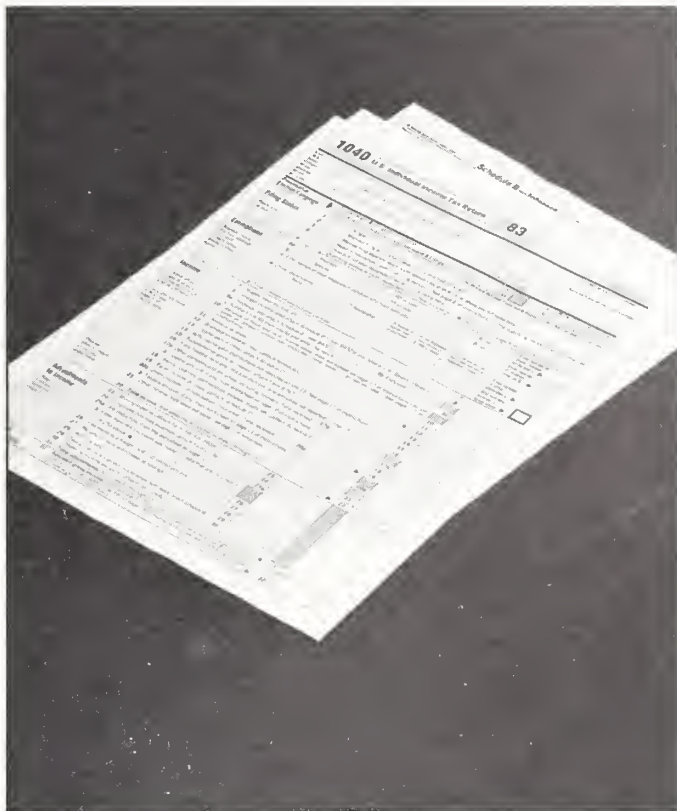
Merritt Hughes attended the North American Regional Science Association Meetings in Boston, MA in November. Her main roles were to chair a session on "Rural Issues" and to present a paper "The Effect of Federal Credit Reform on Rural Areas." The audience was noticeably frustrated by their perception (anecdotal evidence) of a decreased access to financial services in rural areas that they had not seen reflected in published statistical analysis.

Briefings and Miscellaneous

Robert Collender, Ed Cook (ATAD), Jim Langley (ASCS) and Philip Raup (University of Minnesota-St. Paul) held a debriefing in November to report their findings from a recent expedition to the Soviet Union. The group was very skeptical of current reform efforts in the USSR. However, they were impressed by the degree of openness with which issues are being discussed and the range of dissenting opinions being tolerated. Representatives from FAS, ERS, the State Department, and the CIA attended. This material was also presented in condensed form at a Thursday morning S&O briefing on November 8.

Upcoming Events

Merritt Hughes has been invited to present results of research done in collaboration with Anna Nagurney (University of Massachusetts) on the methodology of



Yes, it's that time of year.

reconciliation procedure for systems of datasets at the National Operations Research Society of America - Institute of Management Sciences, Nashville TN in May.

"A Logit Model For Identifying High Performance Agricultural Banks" by Douglas G. Duncan and George B. Wallace was accepted for presentation at the Decision Sciences regional meeting to be held in Arlington, Va. in February. The paper is one of four to be presented in a symposium entitled "Problems in Management and Regulation of Rural Financial Institutions".

Government and Development Policy Section

Research & Analysis

The research team of Peter Stenberg, John Redman, and Lorin Kusmin is examining the regional economics of the textile industry. The textile industry was selected for study as a manufacturing sector that is relatively concentrated in nonmetropolitan areas of the U.S. The project, which investigates the trends, economic characteristics, and relative regional economic role of the textile industry, its subsectors, and associated industries (apparel and textile machinery), is in a relatively early stage. Preliminary economic investigation has been performed using (1) maps of employment in the textile and apparel industries at the two- and three-digit SIC level of aggregation for 1987 (the latest year for which county-level data is available), and (2) a shift-share procedure for analysis of employment changes from 1981 to 1987.

Rick Reeder, Peter Stenberg, and Pat Sullivan are beginning work on the "Development Techniques" chapter for an upcoming ERS report on *Business Development Strategies*. This chapter will focus on several techniques used by State and local governments to assist and shape business growth and investment in rural areas, including technical assistance, business incubators, research and industrial parks, enterprise zones, targeting specific industries, and venture capital programs.

Anicca Jansen has begun work on a project organized by the North Central Regional Center for Rural Development at Iowa State University. Anicca will be part of a multi-disciplinary research team which will use case study methodology to develop a taxonomy of multi-community collaboration. Other members of the research team are: Beverly Cigler (Pennsylvania State-Harrisburg), Vern Ryan (Iowa State University), and Jack Stabler (University of Saskatchewan). Research results will be presented at a conference sometime next year. Norman Reid (OD) is a member of the planning committee and the research subcommittee for this project.

Peter Stenberg has drafted two papers for journal publication: "Universities and Regional Economic Growth: The Concept Behind Universities' Role" and "Higher Education, the Electrical Machinery Industry, and Economic Clusters." These papers examine aspects of the role of higher education institutions in regional economic development. Both papers build upon Stenberg's Ph.D. dissertation, which he recently completed at the University of Minnesota. Peter also submitted a paper, co-authored with Glenn Nelson (University of Minnesota), entitled "The Instrument Industry, Academic Institutions, and Economic Clusters" to a journal for consideration. The paper explores the economic relationship between the instrument industry and academic institutions in the regional economy.

Tom Rowley summarized the rural development provisions of the Food, Agriculture, Conservation and Trade Act of 1990 for a forthcoming ERS *Agricultural Information Bulletin* on the act. The act consolidates USDA rural development efforts within a newly created Rural Development Administration. It also provides for two pilot programs, the Rural Partnership Investment Board (involving the creation of revolving loan funds) and the State Rural Economic Development Review Panels (involving a State-level review process), in up to five States. In addition, the rural development title mandates programs aimed at improving rural water and wastewater services, providing access to telecommunications services, and providing technical assistance.

Publications

Dave Sears, Tom Rowley, and Norm Reid (OD) edited "Infrastructure Investment and Economic Development," Staff Report No. *AGES 9069*. The report is one of a series examining strategies for rural economic development. The series is a follow-up to the highly successful *Rural Economic Development in the 1980's*. In the report, Sears, Rowley, and Reid co-authored the introductory chapter which provides an overview of the relationship between infrastructure and economic development. Subsequent chapters examine specific types of infrastructure such as transportation, telecommunications, and water and wastewater. The water and wastewater chapter was written by Rowley along with Neil Grigg (Colorado State University) and Cliff Rossi (FDP). In general, the authors leave the reader with a healthy degree of skepticism about the possibility of the direct stimulation of economic development across the spectrum of rural communities through haphazard infrastructure investments. On the other hand, they agree that certain carefully selected infrastructure investments may often have good economic development payoffs, when these investments are made in places with the other prerequisites for development.

An article authored by Rick Reeder and Nina Glasgow (Cornell University), entitled "Economic and Fiscal Implications of Nonmetropolitan Retirement Migration," appeared in the *Journal of Applied Gerontology*, Vol. 9, No. 4, December 1990, pp. 433-451. This article, written for an audience concerned with elderly migration issues, includes and elaborates on much of the material the authors covered in their February 1990 *BDP* article on rural retirement counties.

Don F. Hadwiger (Iowa State University) has been examining the extent of State Government involvement in rural economic development. Using Iowa as a case study, Hadwiger found that the State has assumed a major role in rural development. In Iowa, 82 distinct programs aimed at promoting rural economic development were identified; together, they encompass one-fourth of the State's budget. In recent years, as Federal resources targeted at rural development have declined, State and local efforts have increased. Hadwiger's work is presented in ERS Staff Report No. *AGES 9047* entitled "Helping Those Who Venture: Iowa's Rural Economic Development Measures." This study was carried out under a cooperative research agreement with ERS. Dave Sears provided overall guidance for the project.

Tom Rowley, John Redman, and Jack Angle (DSC) report the results of phase 1 of a year-long study of per capita income inequality in an ERS staff report, *AGES 91-04*, entitled "The Rapid Rise in Per Capita Income Inequality in the 1980's: Sources and Prospects." For nearly 50 years, State per capita incomes converged. However, beginning in 1979, per capita incomes abruptly diverged. By 1989, State per capita income inequality, as measured by the coefficient of variation, had increased 41 percent from its 1979 value to its highest level in over 20 years. States in which real per capita income was greater than the national mean in 1979 and grew faster than the national mean accounted for most of the increase. Atlantic Coast States accounted for a large portion of the increase, as did States in which producer services accounted for a large share of total earnings. States dependent on high-technology manufacturing, energy, farm, and traditional manufacturing accounted for less of the increase. Projections of future levels of inequality, based on alternative assumptions about per capita income growth, yield mixed results, ranging from a 10-percent decrease to a 56-percent increase in the coefficient of variation from 1989 to 1995.

Working under a cooperative agreement with ERS, Alvin D. Sokolow and Julie Spezia (University of California at Davis) have been looking at the role that local government officials play in economic development in small communities. Their findings are presented in "Political Leaders as Entrepreneurs: Economic Development in Small

Communities," *Rural Development Research Report No. 77*. After examining 17 cases of successful small town development, Sokolow and Spezia found that while local government officials are heavily involved in the implementation of rural economic development efforts in small communities, they are seldom the initiators of such projects. The authors found that elected political leaders in small towns generally lack the skills, motivations, and priorities demanded of economic development entrepreneurship; these elected officials often are adverse to risk-taking, easily become preoccupied with routine matters, lack the driving force of political ambition, and accept the preeminence of business people and other leaders in the economic development arena. Dave Sears provided overall guidance for this project.

Papers Presented and Meetings Attended

Anicca Jansen presented "Can Sales Tax Revenue Equitably Finance Education? The Tennessee Example" at the 32nd Annual Conference of the Association of Collegiate Schools of Planning (ACSP) held in Austin, Texas in November. In her paper, Anicca reports that in 1988 Tennessee's semi-urban nonmetro counties (nonmetro counties with an urban population of 20,000 or more) collected a disproportionate amount of local sales tax revenue per pupil and per dollar of income compared to other nonmetro counties. In general, with respect to sales tax revenue, semi-urban nonmetro areas are more like metro areas than other nonmetro areas.

The per pupil sales tax revenue of semi-urban nonmetro counties was 152 percent of the State average, and for metro counties per pupil sales tax revenue was 137 percent of State average. This is compared to 92 percent in semi-rural counties (urban population 2,500 to 19,999) and 51 percent in totally rural counties.

Semi-urban nonmetro counties and metro counties collected about \$9 of local sales tax revenue for every \$1,000 of total personal income. This is one and one-half times the local sales tax revenue per dollar of income of semi-rural counties and more than double the tax revenue per dollar of income of rural counties. This suggests that rural and semi-rural nonmetro counties are more disadvantaged the more education finance relies on local sales tax revenue. The results indicate that semi-urban nonmetro counties in Tennessee are serving as trade centers with the likely corollary that sales tax revenue is being exported from rural to more urban counties.

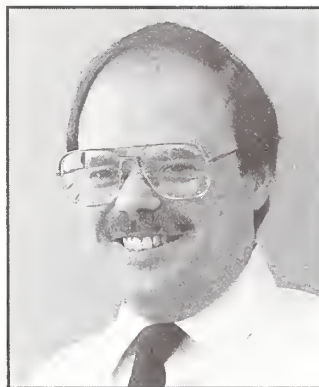
Briefings and Miscellaneous

Dave Sears is participating in the on-going Presidential Initiative on Rural Development. He is serving on the

Outcomes Monitoring Team, and will be working with this team in designing and implementing evaluations of several components of the Initiative throughout 1991. As part of his role, Dave is serving as the Monitor for the Washington State Rural Development Council; he will be working with the State Council to facilitate the smooth functioning of the Council as it develops and implements a rural economic development strategy for the State.

Personnel

Peter Stenberg joined the *Government and Development Policy Section* as an economist on October 1, 1990. He will



Peter Stenberg

be involved in regional economic development policy. Peter got his PhD in Agricultural and Applied Economics at the University of Minnesota. He also has a Bachelor of Science in Computer Science and a Master of Science in Agricultural Economics.

Stenberg was previously Visiting Assistant Professor of Economics at Hamline University in St. Paul, Minnesota and a private economic consultant. Peter and his wife Kim are currently living in Arlington, Virginia and are looking forward to taking advantage of the many activities in the Washington, D.C. area.

Rural Finance and Tax Section

Research and Analysis

Felice Marlora and Jim McGlone are finishing up a study of Federal non-farm credit assistance. They found that rural counties receive more direct Federal credit assistance per capita than urban counties, but that there is greater variability in rural receipts. Low income areas consistently receive below average amounts of credit assistance and are more likely to receive no assistance. Felice and Jim's results suggest that it might be necessary to target more credit assistance at low income areas if credit programs are to be used as rural development tools by needy communities.

Jim McGlone has begun analyzing the National Federation of Independent Business's *Credit, Banks and Small Business* surveys for 1983 and 1985. Earlier examination of the 1987 survey showed that, in general,

rural businesses paid higher interest rates on bank loans than their urban counterparts, but that rural firms faced lower collateral requirements and were more satisfied with the service they received from their banks. Preliminary analysis of the 1983 and 1985 survey data seem to support the conclusions drawn from 1987 survey.

Ron Durst and Mike Compson are working on a paper which analyzes the impact of the Revenue Reconciliation Act of 1990 on farmers. The analysis uses the 1987 Individual Tax Model file recently obtained from the Internal Revenue Service to simulate the impact of marginal tax rate and other changes contained in the 1990 Act.

Publications

Dan Milkove authored "The Changing Nature of the Rural Financial System," which appeared in "Financial Market Intervention as a Rural Development Strategy," Staff Report No. *AGES 9070*. A wide variety of lending institutions serve rural America and thus have potential roles in promoting, or at least facilitating, rural development. Institutions range from private lenders (primarily commercial banks, but also savings and loan associations, credit unions, finance companies, and mutual savings banks), to government-sponsored corporations (Farm Credit System, Federal National Mortgage Association), pension funds, insurance companies, and public and nonprofit lenders (Farmers Home Administration, Small Business Administration, Rural Electrification Administration, and tax-exempt bonds issued by State and local governments).

Financial markets continue to change at a rapid pace in response to financial deregulation and technological change. As part of this process, rural financial markets have become tied more closely to national and international financial markets. Bank managers are likely candidates to participate in local development activities, but the banks themselves cannot be expected to lead development efforts by making loans other than those that meet standard lending criteria.

Papers Presented & Meetings Attended

Jim Mikesell presented "The Structure of Capital Markets: A Rural Perspective" at the January meeting of WRCC-63, "Rural Credit Markets in the West," in La Jolla, CA. His presentation emphasized the complexities and interrelationships in today's financial markets, outlined some important differentiating characteristics of rural participants in these markets, and explained why one should focus on the special characteristics and needs of rural America when planning rural-focused research.

Briefings and Miscellaneous

Doug Duncan, Jim Mikesell, Pat Sullivan, and George Wallace are conducting a mail survey of state farm credit program activity during calendar year 1989 or fiscal year 1990. From this information they will estimate the level of subsidies provided to agricultural producers. The subsidy estimates will, in turn, be used to satisfy a requirement of the U.S. and Canada Free Trade Agreement.

Upcoming Events

The section will be well represented at the annual meetings of the Southeast Region of the Decision Sciences Institute, being held in Arlington, Virginia, in February. Jim Mikesell will present "Does Rural Lending By Branching Banks Match Their Presence in Rural Markets: The Agricultural Loan Example." Multiple-market banks are shown to be less involved in agricultural lending than are local banks. Jim McGlone will present "Contingent Claims and Bank Behavior." Banks are viewed as buyers and sellers of contingent claims to analyze the impact of different environments on their interest rate, collateral, and reserve decisions.

FARM AND RURAL ECONOMY BRANCH

View from the Branch

by Tom Carlin

Last fall Donn Reimund and I had an opportunity to think about the structure of farming in the year 2000. Making long-term projections is always a risky business but it is probably safer than making short term ones that people might actually remember.

We expect farm numbers to continue to decline in the 1990's but at a much slower rate than in past decades. We estimate that by 1995, there will be about 3.5 percent fewer farms in the United States, and, by 2000, we expect the number of farms to be about 6 percent lower than today. This rate of decline is substantially lower than the 11 percent decline experienced during the 1980's.

Changes in farm numbers are net figures that reflect both exit from and entry into farming. Over the 1980's, most public attention was focused on the exit side of the equation. The popular theme was that farm exits were increasing, mostly due to financial stress. FRE researchers

Dave Henderson and Fred Gale show that the rate of gross exits from farming was almost unchanged during the 1970's and 1980's. However, there appears to have been a significant drop in entry during the mid-1980's as compared with the late 1970's when entry was unusually high. Given the age structure of current farm operators, we expect the gross exit rate to continue probably unchanged into the 1990's. The key to our projections then is the rate of entry into the sector. Given the overall improvement in the financial conditions of the sector relative to the mid 1980's, we expect a slight increase in the gross entry rate of farm operators over this decade.

If past structural trends continue into the 1990's as we expect, there will be more large farms at the turn of the century than there are today and production will be even more concentrated among our Nation's largest farms. These large farms will be a small component of the farm sector in terms of numbers and they will be well run and profitable businesses. While production will become more concentrated, the farm sector will still be relatively atomistic compared to nonfarm industries.

We expect the number of small non-commercial farms to continue decreasing as they have in recent years although their proportion of all farms might actually increase. The vagaries of farm income will be almost inconsequential to the overall well-being of households operating small farms. The increased importance of off-farm income to farm families has been a major structural change that has occurred over the last 15 years. The key to the staying power of small farms is going to depend on the vitality of the rural nonfarm economy and how well rural areas ride out the current economic recession.

Agriculture and Community Linkages Section

Research & Analysis

A white paper which assessed the food processing industries' potential for job growth in the Farm States was prepared for the Assistant Secretary for Economics by the *Agriculture and Community Linkages Section*. Fred Hines, Mindy Petrulis, Alex Majchrowicz, Dennis Brown, and Tiffany Mills contributed to the analysis. It was concluded that a reliance on food processing industries as a critical source of employment growth in the 1990's is not a viable option for most local and State economies of Farm States. These industries are slow-growing with employment gains of only 3.1 percent during the last 15 years compared to a 44 percent increase in the total U.S. employment. Many food processing industries have undergone mergers and acquisitions which have raised questions about their stability in any given location. In general, food processing



Virtually all meat undergoes some processing.

industries have replaced labor with capital investment, similar to the job reductions that have characterized the overall U.S. farm sector.

Not all food processing industries have performed the same. Some industries, such as meat processing, fruit and vegetable processing, and various miscellaneous food preparations, have enjoyed modest employment growth. In some instances, local employment growth has come at the expense of job losses to industries in other localities. In other cases, employment growth has resulted from continued increases in consumer demand for specific products but the new jobs have had limited geographic distribution. For example, the demand for poultry products has increased, resulting in more poultry processing jobs, but such growth has occurred only in localities with an established poultry sector.

Dave Henderson and George Wallace (FDP) have begun work on the structure of community capital markets by matching two community level data bases. Preliminary results indicate the functional relationship between commercial bank lending and the commercial sector varies by size of community in a county.

Dave and Fred Gale, who is teaching economics in China this year, are continuing to work on the use of published census data to approximate entry and exit from farming between 1978 and 1987.

Publications

David Henderson and Scott Sanford (CED) have an article entitled "Import-Employment Substitution: The Case of Textiles" forth coming in Vol. 21 of the *Review of Regional Science* in 1991.

Farm Structure Section

Research & Analysis

Judy Kalbacher and Susan Bentley, with Dave Banker and Mitch Morehart, (FSFA) are studying farm structure using the Farm Costs and Returns Survey. They are currently processing the 1987-89 data and plan to update the study annually. Because the Farm Costs and Returns Survey provides information on both farm operating and farm financial characteristics, details on farm income, assets, and debts can be disaggregated by structural characteristics like farm size and operators' primary occupation. This approach will also permit us to examine variability among farm operators over time.

Nora Brooks and Neal Peterson have been analyzing the changing concentration of production and of acreage in U.S. agriculture during the 20th Century. From the Ag Census, Brooks and Peterson have computed Lorenz curves and Gini ratios. They find that the Gini ratios of the acreage and sales distributions increased in parallel fashion up until World War II, but since then the acreage concentration has been nearly flat. Production concentration has continued to increase at a nearly constant rate up to the present. That the trends in Gini ratios have maintained themselves, despite numerous changes in the last 90 years, suggests that this pattern will continue into the future. They are also examining the pattern of regional change, which is much more complex.

Their joint work on concentration has suggested to Peterson a couple of additional avenues of potentially fruitful exploration. One is a time-series analysis of the sales class distribution. The motivation for this springs from the observation of the linear trend in the Gini ratio, which has a high R^2 and should allow extrapolation. However, no conclusions can be drawn about the distribution from the Gini ratio. The Lorenz curves, on the other hand, allow for distributional analysis. The idea is to chose a suitable functional form for the Lorenz curve (eg,

a gamma distribution), whose parameters can be estimated and regressed against time. If the results are good, then projections can be made. Thus far, analysis is promising. His other exploration of agricultural structure is an attempt to uncover the underlying determinants of the Gini ratio that measures production concentration. The analytic methods consist of cluster analysis (and phase-space diagrams) to disaggregate the U.S. into regions of similar Gini ratio behavior, followed by regression analysis. So far, the patterns of change suggest that the physical factors of production (rainfall, irrigation, temperature, length of growing season) may be as important determinants of concentration as socio-economic factors.

Papers Presented and Meetings Attended

Alan Bird has recently extended his *Choices* paper (reported in the Fall '90 *ARED News*) with a further paper, "The Last Agricultural Revolution - A New Lifestyle," that will be presented at a conference on "Rural Planning and Development: Visions of the 21st Century," in February. This paper sketches a new lifestyle that would result from a new rural development strategy tailored to the special circumstances of sparsely settled agricultural regions. It also gives a first glimpse of adjustments already underway in Nebraska that are compatible with this new structure.

Briefings & Miscellaneous

Alan Bird has been asked to lead a workshop at the U.S. Dept. of Labor in early March on "Unemployment versus Earnings as an Indicator of Labor Market Performance."

At the Allied Social Science Association's December Meetings in Washington, D.C., he was honored at a special reception for past presidents of the Society of Government Economists, a part of the society's celebration of its twentieth anniversary.

Date set for Symposium on Society and Resource Management

The Fourth North American Symposium on Society and Resource Management is scheduled to meet in Madison, Wis., on May 17-20, 1992. The Symposium will focus on the integration of social and biological sciences as they together address natural resource and environmental issues. For further information contact: Donald R. Field, Program Chair; School of Natural Resources; 1450 Linden Drive; Madison, WI. 53706.

Personnel

Alan Bird transferred in January from the Human Resources and Industry Branch to the *Farm Structure Section* of the Farm and Rural Economy Branch. He will continue his work on the interrelationships between commercial agriculture and rural development.

HUMAN RESOURCES AND INDUSTRY BRANCH

View from the Branch

by David McGranahan

ERS Branch Chiefs were recently asked to prepare succinct workplans for a meeting with the Agency Administrator. We were also asked to write new Views from the Branches for the ARED newsletter. I view workplans.

We have two new Section Heads in the Branch: Paul Swaim (Rural Labor) and Andy Bernat (Rural Industry). We are extremely fortunate. Both Paul and Andy bring research experience, methodological knowledge, critical ability, and a collegial approach to their positions. Their arrival is another reason to try to broadly define the purpose and program of work for the Branch.

The central concern of the Human Resources and Industry Branch is economic opportunities of rural people and places. We are also concerned with social conditions, such as health and family structure, especially as they relate to economic opportunities.

During 1980's, rural economic opportunities were poor not only because rural areas specialize in economic sectors that were weak for much of the period (agriculture, mining, and routine manufacturing), but also because of a deterioration of the rural economic niche. Rural de-development, as we might call this process, involved a drop in the education levels of rural young adults, a loss in manufacturing jobs except low skill production jobs, a decline in real earnings, and an increase in poverty.

The current concern of our Branch is to understand why this happened, where it happened, who was most affected, and what might prevent its continuation. Our work has three aspects: the broader forces shaping rural opportunities; variations in regional and local stress and adaptability, and the adaptability of people and families.

Work on the broader forces focuses on changes in the industrial, occupational and spatial structure of the economy in response to foreign competition, new technology, and demographic trends. Broad forces may also include public policy. For instance, we are currently finishing a monograph on the implications of the Family Support Act of 1988 for rural people on the margin of the workforce.

Area studies examine both the regional dimensions of rural de-development and the characteristics of local economies that remained healthy in the economic context of the 1980's.

At the individual and family level, we are investigating such issues as: which workers are being displaced; which are able to find new jobs; the importance of migration; family adaptation to the changing economy; and trends in earnings by worker characteristics.

Two projects deserve special mention. We are co-sponsoring with Cornell University and the Aspen Institute a national workshop to bring together rural demographers and analysts of the changing structure of the U.S. economy. The purpose is to catalyze demographic research on current rural problems. Also, we have formed a working group to develop a monograph on rural minorities. While we know that rural people and places have generally done poorly, we know relatively little about minority groups or areas with large concentrations of minorities. This project brings together a working group of about nine persons from three sections within the Branch.

Personnel

Andy Bernat is the new leader, *Rural Industry Section*, Human Resources and Industry Branch, Agriculture and Rural Economy Division.



Andy Bernat

Bernat joined ERS in 1985, working on land ownership and tenure issues in the Land Branch, Resources and Technology Division. Since then, Bernat prepared farm income forecasts and has carried out research on estimating regional impacts of national level policies and the use of input-output models in analyzing natural resource policies.

Bernat has a B.A. in geography from Clark University, an M.A. in economics from the University of Virginia, and

a Ph.D. in agricultural economics from Virginia Polytechnic Institute and State University. He has had articles published in the *American Journal of Agricultural Economics*, the *Southern Journal of Agricultural Economics*, and the *Review of Regional Studies*. He received a Certificate of Merit for his work supporting the 1988 drought assessment.

Andy grew up in Fairfax County, and after some wandering around gathering degrees, has returned to his roots. He lives in Vienna, Virginia, with his wife Sue and three year old daughter Elizabeth.

Income and Well-Being Section

Research & Analysis

At the request of the Assistant Secretary for Economics, Bob Hoppe and Linda Ghelfi prepared a white paper on rural-urban cost-of-living differences. Although many people believe that it costs less to live in rural areas, there is no measure of cost-of-living differences between rural and urban areas.

A recent proposal to use local Consumer Price Indices (CPI's) as indicators of geographic cost-of-living differences is inappropriate. The local CPI's were designed to follow price changes in particular areas over time. They were not designed to measure geographic variations in prices. In addition, these CPI's are based on data collected in urban areas; no data are collected from rural areas.

Measuring rural-urban cost-of-living differences would involve collecting prices for a fixed market basket of goods and services in enough areas to obtain true estimates of local costs. Federal budget conditions make this undertaking unlikely in the foreseeable future.

Bob Hoppe prepared a second white paper for the Assistant Secretary for Economics, on the farm population's poverty rate. Between 1986 and 1987, the poverty rate for the population living on farms dropped by 7 percentage points. Sampling problems may have contributed to this large decline, but most of the decline appears to have resulted from improved farm and nonfarm economic conditions.

The farm poverty rate is much more volatile than the poverty rates for other components of the population, reflecting volatility in net farm income. The farm population's poverty rate is also correlated with the unemployment rate, which reflects the availability of off-farm work to the farm population.

Briefings & Miscellaneous

Kenneth Deavers (OD), Linda Swanson (Pop), Bob Hoppe, Linda Ghelfi, and Liz Dagata held a briefing for the Food and Nutrition Service (FNS) on October 26, 1990. FNS requested the briefing to learn more about rural areas and rural poverty. The participants discussed the definitions of "rural" and "nonmetro," presented information about the rural poor, and examined rural-urban differences in the cost of living.

Deavers introduced the group and later summarized the presentation, emphasizing that poverty is still a problem in nonmetro areas. Bob pointed out the high level of nonmetro poverty and discussed the groups that make up the nonmetro poor. He also explained how characteristics of the nonmetro poor affect participation in various assistance programs.

Many people believe that the poverty thresholds should be adjusted to reflect lower living costs in rural areas. Ghelfi showed, however, that there is no nation-wide index with which to make the adjustment. The case for lower living costs in rural areas is difficult to support with existing data.

Rural Labor Section

Research & Analysis

Paul Swaim met with Professor Michael Podgursky (University of Massachusetts) in late December to discuss their research on job displacement in nonmetro labor markets. By combining information across several *Current Population Surveys*, they were able to construct longitudinal histories for both displaced workers and a comparison group of nondisplaced workers. Swaim and Podgursky also plan to begin estimating econometric models of the incidence and effects of permanent layoffs in the next few weeks. This effort is being supported by an ERS cooperative agreement.

Ruy Teixeira is working on a collaborative article with David McGranahan (HRIB), Linda Ghelfi (IWB) and Paul Swaim, tentatively titled "Skill Upgrading in the US Economy, 1970-1988". The article compares evidence employed by sociologists and economists to evaluate changing skill requirements and points out the shortcomings of both approaches. A synthetic approach that employs both types of evidence, while investigating spatial and regional variation in skill trends, is advocated.

Leslie Whitener is currently working with Leon Ginsberg of the University of South Carolina on a study to explore

the operation of the Job Opportunities and Basic Skills (JOBS) Program in rural areas of South Carolina. The JOBS Program, authorized by the Family Support Act of 1988, provides education, training, and supportive services to welfare recipients to help them avoid long-term welfare dependence. However, the operation and effectiveness of the JOBS Program is likely to be complicated in many rural areas by the limited availability of employment opportunities, more serious educational and training needs of the eligible population, and the inadequacy of local service-delivery systems.

Leslie spent the first week of December visiting several rural program sites in South Carolina, reviewing program data, and talking with county welfare directors, local program staff, and program participants to help assess the effectiveness of the JOBS program in rural South Carolina. Their preliminary findings suggest that JOBS programs in nonmetropolitan South Carolina are working as well, and in some cases better, than in metropolitan areas of the State. Limited employment opportunities appear to affect both rural and urban areas, and many of the job placements tend to be in low wage service jobs. However, availability of transportation, child care, and training facilities did not negatively affect program participation in rural parts of the State.

Publications

Ruy Teixeira has made final revisions to the report "*The Myth of the Coming Labor Shortage: Jobs, Skills and Incomes of America's Workforce 2000*", co-authored with Lawrence Mishel and due out shortly from the Economic Policy Institute (key findings from the report were summarized in *ARED News*, Spring/Summer, 1990). Papers based on this report were presented this fall at The Urban Institute, Johns Hopkins University, MIT, the University of Maryland and the Office of Technology Assessment.

An article summarizing findings from the report will be published early this spring by *The American Prospect*. Another article summarizes initial findings from Teixeira's current project comparing skill trends in rural and urban areas. This article is due out in the summer in *Rural Development Perspectives*. A final Economic Policy Institute report will also be issued once the current project is completed.

Papers Presented & Meetings Attended

Paul Swaim attended a meeting of the Working Group on Work Structures, Labor Market Dynamics and Rural



Off farm income is an important source of rural earnings

Poverty. Group members developed a work plan for studying the evolution of employment opportunities in high poverty areas. This group is part of the multi-disciplinary Task Force on Persistent Rural Poverty organized by the Rural Sociological Society.

Shirley Porterfield was an invited speaker for the opening session of a conference "Planning Local Economic Development in the 1990s" in Chicago, IL on October 22. Her presentation, titled "Trends in Midwest Service Industries," emphasized the increasing importance to the Midwest economy of employment growth in the, relatively, high wage producer services during the 1980s. The conference was jointly sponsored by the Rural Affairs Institute at Western Illinois University and the U.S. Department of Commerce, Economic Development Administration.

Shirley also presented a paper at the annual meeting of the Association of Collegiate Schools of Planning in Austin, TX, November 2-4. The paper, titled "Earnings, Employment, and Industrial Structure in the Post-Industrial Economy," examines the relationship between industrial diversity, change in average earnings, and employment growth during the 1980s. Results highlight differences in employment and earnings growth in urban and rural areas. While in urban areas a bi-polarization of jobs by earnings is seen, rural areas are only gaining in their share of jobs which pay less than two-thirds of the U.S. average annual earnings per job. The share of jobs in the medium- and high-earnings (those which pay more than four-thirds of the U.S. average) categories in rural areas is declining. The major portion of the change in average annual earnings per job between 1981 and 1987 can be attributed to increased relative earnings in industries which gained employment over the period. Growth in average earnings is also influenced by increased diversity of the industrial structure. Growth in employment occurs primarily through increasing the number of industries represented in the study area.

Molly Killian chaired the annual meeting of the S-229 Regional Research Project in New Orleans, LA on October 19th and 20th. The first day, the group of researchers worked on revising their chapters for an upcoming book *Labor Markets and Inequality*. This will be the second book to be written by the S-229 research project participants and will represent their ideas on how to include the concepts of space and region into social science research as well as empirical analyses using the Labor Market Area (LMA) definition of local labor markets. The second day, the group discussed strategies for additional analyses using data from the 1990 Census.

(Editors Note: Molly will soon, probably before this newsletter gets back from the printer, be transferring to the newly created *Rural Industries Section*)

Briefings & Miscellaneous

Paul Swaim's research on job displacement was discussed in news reports broadcast by the ABC Radio News Service (November 3, 1990) and the PBS radio news show "Morning Edition" (November 7, 1990). Paul was also interviewed on the CBS television show "America Tonight" (November 2, 1990).

Ruy Teixeira will be working as part of the Task Force on Persistent Rural Poverty, sponsored by the Rural Sociological Society, under the direction of the Society's President, Gene Summers. Teixeira is attached to the Working Group on Human Capital Investment, Labor Supply and Rural Poverty, chaired by Dan Lichter. The group held their first meeting on January 18th at ERS.

On October 31st, **Molly Killian**, **Tanya Roberts** (CED), and **Sharlan Starr** (DSC) gave a brown bag seminar sponsored by the ERS Federal Women's Program. Molly's discussion was titled "The Management Process: When to Manage and When to Leave Well Enough Alone".

Molly also participated in the initial meeting of an Extension Service Task Force on Workforce Productivity on December 4th and 5th. The task force has written a draft of a white paper addressing the relevance of workforce productivity to the Cooperative Extension System education program.



Winter work in a Florida orange grove.

Upcoming Events

Ruy Teixeira will participate in the National Workshop on Population Change and the Future of Rural America, co-sponsored by ERS, Cornell University College of Agriculture and Life Sciences and the Aspen Institute. Teixeira will lead a work group on demographic change and the human capital endowment of rural America at the event, to be held at the Wye Plantation on the Eastern Shore of Maryland, May 30-June 1.

Personnel

Paul Swaim is the new leader, *Rural Labor Section*, Human Resources and Industry Branch, ARED. Since joining ERS in 1988, Paul has conducted research on rural labor markets. His research on displaced workers has resulted in publications in *The Journal of Human Resources*, *Monthly Labor Review*, *Industrial and Labor Relations Review*, *Industrial Relations*, and the *Review of Economics and Statistics*. Together with other members of the Human Resources and Industry Branch, he has written the (forthcoming) report "Education and Employment" for the *Rural Strategies for the 1990's* series being issued by ARED. He has also served on the editorial board of *Rural Development Perspectives*.



Paul Swaim

Prior to joining ERS, Swaim was an assistant professor of economics at the University of Massachusetts at Amherst. While at the university, he was awarded a NSF/ASA senior research fellowship, which he used to spend the 1987/8 academic year at the Bureau of Labor Statistics. He was also the recipient of research grants from the Department of Labor and the National Commission on Employment Policy.

Paul, who has a BA in mathematics and economics from Pomona College and a Ph.D. in economics from MIT, lives just over the Maryland line in Chevy Chase. He enjoys bicycling, both locally and further afield. A native of the Pacific Northwest, he hopes eventually to return to that area.

Robert Gibbs joined the Rural Labor Section in November, 1990, immediately upon completion of a Ph.D. in regional science at the University of Pennsylvania. During his lengthy graduate career, he focused his research on post-World War II migration patterns and earnings

growth of black workers in the South. He is expanding upon this work at ERS by comparing the recent occupational shifts of nonmetropolitan blacks and whites, as well as by analyzing the role of rural labor market structure in gathering job information.



Robert Gibbs

A native of rural Georgia, Robert developed a taste for urban living while a student in Atlanta and Philadelphia. He now lives near Old Town Alexandria, Virginia, with his wife Carmen, also a (soon-to-be) graduate of Penn, and daughter Nora, born November 29.

Population Section

Publications

John Cromartie and Carol Stack (UC-Berkeley) have recently completed "The Journeys of Black Children: An Intergenerational Perspective," which will be published as a chapter in the forthcoming book, *Noneconomic Migration*, edited by Patrick Jobes and William Stinner. Combining census analysis and ethnographic fieldwork, the research examines historical migration strategies within black families and their impact on the current cyclical migration of children between countryside and city. Black children often become active rather than passive participants in their own cyclical migration, and their migration solidifies urban/rural links among extended families.

Papers Presented & Meetings Attended

In January, John Cromartie attended the conference, "Getting the Most Out of Census Information," held at Tech World Plaza in Washington D.C. John received in-depth introduction to T.I.G.E.R., the Census Bureau's new Geographic Information System, and learned about other products that enhance data access and analysis. An assessment of this new technology was presented to the HRI Branch at a brown bag seminar.

Upcoming Events

John Cromartie will present a paper, "Dynamics of Nonmetropolitan Out-migration, 1985-90," at the Population Association of America annual meeting to be

held in Washington, D.C., on March 21-23. John will also attend the Association of American Geographers annual meeting in Miami on April 13-17, where he will represent the Division on a panel discussing sources of federal funding for geographic research.

FARM SECTOR FINANCIAL ANALYSIS BRANCH

View from the Branch

by Roger Strickland

The Farm Sector Financial Analysis Branch started the New Year with its annual *Farm Costs and Returns Survey* (FCRS) training schools. The schools this year were held the second and third weeks of January in Clearwater, FL and San Diego, CA. FSFA staff attending the schools were Jim Johnson, Mitch Morehart, Dave Banker, Bob Pelly, Dargan Glaze, Bill McBride, Ken Mathews and Jim Ryan. John Lee (OA), other ARED personnel, and Commodity Economics Division (CED) and Resources and Technology Division (RTD) staff also attended.

Soybeans, sorghum, and cow-calf production are the special commodities on this year's FCRS. The Livestock Branch of CED has designed cow-calf portions of the questionnaires and taught those parts at the schools. The general financial sections of the questionnaire, of course, were also included. The survey will be conducted in February and March and data will be available for analysis in June. A special addition to this year's survey are detailed grain marketing questions.

The FCRS is gaining in importance as a major data source for agricultural economics research. In this age of tight budgets, more and more of our data "eggs" are being put into this survey basket. Not only does FSFA use the data for financial analyses, but also GAO, OMB, USDA's Assistant Secretary for Economics, and several Land Grant Universities. Within ERS, RTD has been a major user. Some of RTD's studies have looked at technical efficiency by chemical use level, the extent of technical inefficiency under crop sharing contracts, and cross sectional demand for nitrogen, to name a few. We invite all researchers to talk with Dave Banker about how the FCRS might aid in their projects.

The *Agricultural Income and Finance: Situation and Outlook Report* was released in December. The financial outlook for 1991 is one of limited growth. Net cash income will probably drop slightly in the \$55- to \$60-billion

range while net farm income could fall as much as 10 percent. Early forecasts show higher production expenses and lower direct payments. Crop receipts may increase \$1 to \$5 billion over the \$77 billion forecast for 1990. Livestock cash receipts are forecast to stabilize at about 1990's \$91 billion. Farm asset and equity values should go up about 2 percent but debt will increase slightly after falling for 7 straight years.

The report highlighted three special articles on State farm credit subsidy programs, revisions in the Agency's farm income data series, and who is affected by higher fuel prices.

Greg Strain of Agriculture Canada is currently working in the Branch as a visiting economist with a particular interest in overall financial indicators measurement.

Farm Income Estimation Section

Research and Analysis

The farm income accounts have been revised substantially in 1990 reflecting the availability of additional and revised data and changes to estimation concepts and procedures. Selected statistics for major components of the income accounts were published in the August issue of *Agricultural Income and Finance: Situation and Outlook Report*. A complete set of accounts were subsequently published in the national and state issues of the *Economic Indicators of the Farm Sector, 1989*.

Every five years, the income accounts are subject to revision as data from the most recent *Census of Agriculture* are incorporated. For some components of the income accounts, estimates for years since the last Census are derived by "benchmarking" procedures where indicators of the direction and magnitude of change from year to year are used to move the benchmarks. (The annual *Farm Costs and Return Survey* is a principal source of indicators used as movers.) Because the Census data are released 2 - 3 years after the year of collection, revisions back to the prior census year involve 7 - 8 years.

Incorporation of the 1987 Census of Agriculture produced substantial revisions in the 1983-88 estimates. Particularly for production expenses benchmarked to previous censuses such as feed, seed, fertilizer and lime, pesticides, fuels and oils, electricity, and machine hire and custom work. The 1987 Census also collected data on repair and maintenance expenses, property taxes, and cash rent to landlords. Benchmarking these expenses to the Census caused revisions in their estimates for 1987-88.



Appaloosa mare and her colt.

The ERS Estimates' Staff has had concerns about the validity of the building values, the depreciation method employed, and some of the assumptions underlying the imputation of income accruing to the Farm Sector's equity capital in housing. The Staff has been studying these issues for almost two years and decided that it would be best to incorporate all revisions to data and methods simultaneously.

In addition, the method used to incorporate administrative data regarding Commodity Credit Corporation (CCC) transactions had become increasingly inappropriate in recent years. That method, employed over several decades and commonly referred to as "net CCC" data, permitted considerable savings of effort and costs in storage and processing of the CCC data. However, changes in both the form and focus of the incentives offered to farmers participating in the commodity programs led them to respond in ways that rendered the "net CCC" procedure unacceptable. A new method for incorporating separately the CCC transactions for loans made (placed) and loans redeemed was implemented with the publication of the 1989 income accounts.

More information regarding the nature and extent of the revisions can be found in an article in the December issue of *Agricultural Income and Finance: Situation and Outlook Report* by Roger Strickland and James Johnson (FSFA).

Economic Indicators Research and Forecasts Section

Research & Analysis

John Jinkins and **Robert Dubman** used the 1989 Farm Cost and Returns Survey to determine which types of farms are most dependent on diesel fuel and gasoline. Their research showed which farmers may need to make adjustments if problems in the Mideast result in increased fuel prices. They found that on average, 5.2 percent of cash expenses of all agricultural producers go for diesel fuel and gasoline. Cash grain farmers had 7.7 percent of costs going for fuel, the highest percentage of any major commodity group. Largely due to bulk purchase discounts, per-gallon prices generally declined as the amount of fuel purchased per farm increased. About 6 percent of the group of farmers that used the most fuel in 1989 were in a

vulnerable financial condition. More results from the research by Jinkins and Dubman are found in the December 1990 issue of *Agricultural Income and Finance*.

Hisham El-Osta, in collaboration with Mary Ahearn and Andy Bernat (HRIB), has been working on issues that relate to the measurement of the size distribution of income among U.S. farm operator households. The technique used in their research is that of the Gini coefficient as was originally proposed by Pyatt, Chen, and Fei, *Quarterly Journal of Economics*, 1980 and as was extended later by Lerman and Yitzhaki, *Review of Economics and Statistics*, 1985. The benefit of using this technique over other direct methods is its ability to decompose total income inequality by individual income sources. Hisham has developed a general, user-friendly computer program in SAS Interactive Matrix Language to allow for the use of this model under any specification of income categories and subpopulations of farm units. Because of such flexibility, the procedure has been implemented using data from the 1988 FCRS in a number of research projects. The emphasis of these projects so far has been centered on measuring the impact of income from off-farm sources and Government programs on the distribution of total income of U.S. farm families. Future directions in this area include addressing the problems posed by the presence of negative incomes using the methods outlined by Chen, Tsaur, and Hai, *Oxford Economic Papers*, 1982.

Upcoming Events

Diane Bertelsen developed and released the first forecasts of 1991 farm income at the Outlook Conference, November 28, 1990. Net cash income of the farm sector was projected to drop 2 to 3 percent in 1991, from the record \$59 billion expected for 1990. Net farm income was also expected to be lower than 1990's \$49 billion, dropping about 5 percent and ranging from \$44 to \$49 billion. Wheat was the only crop for which we reported lower cash receipts for 1990 (5 to 10 percent less than 1989) and for 1991 (down as much as \$2 billion). Forecasts of higher production expenses and lower direct payments underlie the net income declines. Diane also published descriptions of the 1990 and 1991 forecasts in the December issue of the *Agricultural Income and Finance: Situation and Outlook Report* and in the January/February issue of *Agricultural Outlook*. Additional analysis showed 1991 incomes likely to be down the most in regions where dairy and wheat are important sources of cash receipts. Comparisons made between forecasts and annual estimates of farm sector income showed that the first forecasts of receipts and expenses have errors that average between 4-6 percent of the final estimate made 18 months later.

Papers Presented & Meetings Attended

Mary Ahearn and Hisham El-Osta have completed a paper on "Income Inequality Among Farm People: The Role of Off-farm Work." Mary will present the paper at the Conference on "Rural Planning and Development: Visions of the 21st Century", February 13-15, 1991, in Orlando, Florida. The paper describes the historical trends in farm and off-farm sources of income for farm operator households. Off-farm income is a more stable source of income and has increased at a considerably faster rate than farm income. The paper also describes the characteristics of operator households by whether or not they participate in off-farm wage and salary jobs or businesses. Finally, the paper measures the distribution of income by source of income for farm households who are engaged in farming full-time and for those who also work off their farms.

Compared to all U.S. households, the incomes of farm operator households are considerably more unequally when measured by Gini ratios. By source of income, farm income contributes the most to the high income inequality of farm operator households. Correspondingly, full-time farm operator households experience higher income inequality than part-time farm households. The increase in off-farm income and concentration of agricultural production will surely continue into the future and have two critical effects on the income distribution dynamic for farm operator households. First, farm income will become even more unequally distributed. Secondly, because fewer farm households are dependent on this income source and most farm households will depend on the more equally distributed earned off-farm income, income inequality from all sources of income will be lessened among farm operator households.

As the Chairperson of the American Agricultural Economics Association's (AAEA) Economic Statistics Committee, Mary Ahearn has organized a meeting to be held February 20-21, 1991 in Kansas City, MO on the "Economic Accounting of Commodity Costs and Returns." More than 40 national experts will be assembled to address the conference. The conference is being jointly sponsored by the Farm Foundation, ERS, AAEA, and the Federal Extension Service. The purpose of the conference is to explore how different uses of costs and return estimates determine different methods of estimation, and for similar uses, what are preferred estimation methods. Mary Ahearn and Utpal Vasavada (University of Laval, Quebec, Canada) will be editing a book on the subject based on the papers presented in the conference. For more details on participating in the conference, please contact Mary (202-219-0807).

Personnel

Janet Perry has recently joined the Farm Sector Financial Analysis Branch. She is assigned to the



Janet Perry

Economic Indicators Research and Forecasting Section and will begin her work at ERS with a project on limited resource farms. Janet finished her Ph.D. in agricultural economics at Oklahoma State University this summer. Her work focused on returns to labor for farm and off-farm employment. At Oklahoma State, she also conducted a survey of farmers who had gone bankrupt and presented

the results of that survey at the AAEEA meetings in Baton Rouge in 1989.

Janet has a master's degree in agricultural economics and a bachelor's degree in anthropology, both from New Mexico State University. She has experience in industry, working in market research for Public Service of New Mexico and for Halliburton Services. A native New Mexican, Janet is a sports fan and enjoys hiking, museums, and crafts. Perry lives in Virginia with her husband and six-year old daughter.

Briefings & Miscellaneous

Robert Dubman participated in the Food and Agricultural Policy Research Institute's Ten-Year Review in Kansas City, Missouri in January. He was a discussant on FAPRI's long term forecasts of net farm income. The *Economic Indicators Research and Forecasting Section* makes farm income forecasts for ERS.

Farm Costs and Returns Section

Research and Analysis

The Farm Costs and Returns Section (FCRS) has been busy with the 1989 estimates of National, regional, and State-level Field Crop Costs of Production (COP). Robert Dismukes headed the project which involved Mir Ali, Dargan Glaze, Ken Mathews, Bill McBride, Bob Pelly, and Mike Salassi. The 1989 rice and wheat estimates are the first official USDA estimates from the new Farm Level Budget Model. Mir Ali also helped Mike Salassi develop rice budgets that include costs and returns from Government program participation.

Another annual project occupying FCRS time is preparing the *Farm Costs and Returns Survey* (FCRS) for 1991. Section members involved in questionnaire revision, enumerator manual revision, edit specifications, and enumerator schools in Clearwater, Florida and San Diego, California include Section Leader Mitch Morehart, Dargan Glaze, Ken Mathews, Bill McBride, and Bob Pelly.

Section Leader Mitch Morehart has been working on "Financial Characteristics of the Farm Sector, 1991," a detailed view of farm finance in 1989.

Upcoming Events

Several Farm Costs and Returns staff members have been preparing papers for the Conference on Economic Accounting of Commodity Costs and Returns to be held in Kansas City this February 20-21. Section Leader Mitch Morehart and Mir Ali will have papers in the conference.

Farm Financial Analysis Section

Papers Presented & Meetings Attended

James Ryan gave the finance outlook presentation at the Agricultural Outlook Conference. The paper entitled "Finance Outlook: Guarded Optimism," was co-authored by Diane Bertelsen (EIRF) and Ken Erickson. The outlook is for limited growth in an otherwise healthy farm economy in 1991, as the impacts of recent developments here and abroad work through the farm sector. While most farm income measures attained record levels in 1990, factors coming into play late in the year indicate that U.S. farmers are likely to see slightly lower net incomes in 1991. These income forecasts, coupled with other projected financial performance measures, point toward a slowing in the rate of growth of the farm economy.

Duane Hacklander and Charles Barnard discussed alternative procedures for estimating farm dwelling values with personnel in the Agricultural Division, Bureau of the Census during a December 12, 1990 meeting. Other ERS participants in the meeting at Census headquarters in Suitland, Maryland included Fred Kuchler and Roger Hexem (RTD). The purpose of the meeting was to discuss procedures necessary to reconcile farm real estate statistics derived from four ERS and Bureau of the Census surveys: the 1987 *Census of Agriculture*, the 1988 *Agricultural Economics and Land Ownership Survey*, the *Farm Costs and Returns Survey*, and the *Agricultural Land Values Survey*.

Conjunctive use of these data in ERS procedures for estimating farm dwelling values and farmland values implies

that the data from each survey represent a common segment of the farm population. In fact, however, each survey represents a slightly different segment of the farm sector. Census may be able to provide ERS with supplemental State tabulations that will be helpful in making some necessary adjustments. Dwelling value estimates are fundamental in procedures used to generate the excluding household version of the farm sector balance sheet. Dwelling value estimates are also crucial components of ERS procedures for deriving estimates of the rental values of farm dwellings, which are elements in ERS's net farm income series, and which are provided to the Department of Commerce for inclusion in the *National Income and Product Accounts*.

ARED PEOPLE

Office of the Director

More than forty colleagues from EMS, ERS and NASS honored **Angela Walker** at a retirement luncheon November 19. Angela was the EMS-Personnel Division specialist who worked with ARED until she underwent surgery for a brain tumor a little more than a year ago. She was the recipient of an ARED award in 1988 for her service to the division in the tedious process of extending the career ladder for GM-12 employees (many in the division should be grateful).

Tumor and surgery have not phased Angela's remarkably positive, generous disposition. Her retirement came only on the orders of her physician and despite the fact, as she says, there is more she would like to do in the personnel field. Angela remains busy, volunteering at her church and at a local hospital, and caring for a sick relative. She promises to visit ERS soon.

(Editor's Note: Although Angela was not "officially" an ARED employee, she was part of our family and more than deserving of this space.)

National Economy and History Branch

In the late sixties, **Gerald Schluter** declared more than once that the input-output (I/O) table constructed for his dissertation work would be his first and last I/O table. Now he leads a group with I/O at its core. Schluter joined ERS in 1970 as an agricultural economist in the Farm Income Branch, Economics and Statistical Analysis Division. Since then, through a series of functionally similar but

organizationally different positions (seven in the Carter Administration, alone), Gerald has arrived at his present position as head of the *National Aggregate Analysis Section*.



Gerald Schluter

Input-output analysis provides a core to much of the National Aggregate Analysis section's work. The section provides the agricultural transactions for the national I/O table constructed in the Department of Commerce. It provides an I/O analytical capability for the division and agency and maintains the I/O-based estimates of income and employment in the U.S. food and fiber system. It also maintains a computable

general equilibrium, CGE, modeling capability in which imbedded I/O matrices provide the sectoral structure and much of the linkages.

His top-notch staff makes being a section head enjoyable. In the past several years, NAA staff members have presented research papers on four continents, in eight nations, and at numerous professional meetings. But this productive staff does leave Schluter with enough time to carry on his on research. He has co-authored some ten journal articles, three ERS publications, numerous contributions to ERS publications, eleven papers at professional meetings in the last five years, spent a stint as editor of *Agricultural Economics Research* and has taught economics in the USDA Graduate School.

When not clearing research papers for his staff, Jerry resides in Fairfax County with his wife, Carolyn, and daughter, Deborah, a senior at Mary Washington College.

Gerald learned to shovel on a general livestock farm in western Iowa where he grew up. He attended Iowa State University for most of the sixties, accumulating a BS, MS, and Ph.D before hooking up a U-Haul trailer to his 1966 Ford and heading east with his wife and infant daughter to Washington D.C. to work for ERS.

Farm Sector Financial Analysis Branch

Mir Ali, is currently an ERS cost analyst for barley. Mir specializes in cost-estimation, cost-size and cost-distributional issues. Since he joined the Farm Costs and Returns Section in 1987, Mir has been working on estimating the costs of production for major U.S. field crops.

Prior to 1987, Mir was Research Assistant for the Department of Agricultural Economics at the North Dakota State University and has 10 years of experience in the areas of cost analysis, farm management, production economics and resource economics. In addition, Mir has training and research experience in the agricultural physical sciences. He has an M.S. in Soil Science and an M.S. in Agricultural Economics from North Dakota State University. Mir received a USDA Certificate of Merit Award for his technical contribution to the development of national cost of production estimates.



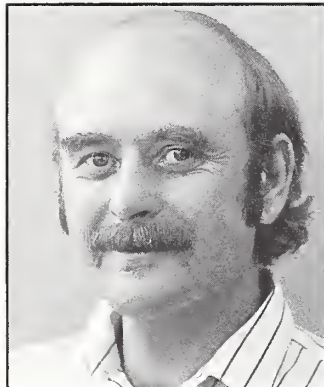
Mir Ali

Mir misses the mighty cold of Dakota's winter but has had no success in convincing his Washington buddies to experience with him the joy of four seasons in Fargo (especially, the winter).

Mir misses the mighty cold of Dakota's winter but has had no success in convincing his Washington buddies to experience with him the joy of four seasons in Fargo (especially, the winter).

Farm and Rural Economy Branch

David Henderson came to ARED in June of 1988. He served his first two years in the *Farm Structure Section* and was recently transferred to the *Agriculture and Community Linkages Section* within the Farm and Rural Economy Branch. David received his Bachelor of Science in Economics and Anthropology, his Master of Science in the Social Sciences, and finished his formal education with a Doctorate in Agricultural Economics. Dave, along with his wife and three sons, reside in Manassass, Virginia. Dave is actively involved in his neighborhood where he is a den leader in the Boy Scouts and a worker in his church's AWANA club.



David Henderson

Economics. Dave, along with his wife and three sons, reside in Manassass, Virginia. Dave is actively involved in his neighborhood where he is a den leader in the Boy Scouts and a worker in his church's AWANA club.

Finance and Development Policy Branch

Ron Durst is section leader for the *Rural Finance and Tax Section*. Since joining ERS in 1980, Ron has worked exclusively in the agricultural tax area. During this period, he has analyzed the implications for the agricultural sector

of several major tax bills, including the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986. Ron has received two Administrator's Special Merit Awards and a U.S. Department of Agriculture Superior Service Award for his work in the tax area.



Ron Durst

Ron grew up on a small dairy farm near Point Pleasant, W.Va. He attended West Virginia University where he earned a B.S. in agricultural education, M.S. in agricultural economics and a law degree. Ron also has a Masters degree in taxation from Georgetown University. Ron currently lives in Chantilly, Virginia with his wife and 2 sons. Much of Ron's time away from the office is devoted to hammering away at the ever expanding list of home improvement projects and to his involvement as a coach for his sons' soccer and basketball teams.

Human Resources and Industry Branch

Tim Parker joined ERS in 1987 as a sociologist in the Rural Labor Section. Since joining ERS he has worked on rural unemployment and employment issues. He is currently working on a book chapter with Leslie Whitener on labor market conditions facing farmers and their spouses. He also spends much of his time keeping track of the current nonmetro employment situation that is reported in *Rural Conditions and Trends*.



Tim Parker

A native of the Washington area, Tim, received his B.A. and M.A. in sociology from George Washington University and the University of Maryland. He enjoys biking and travel, and is currently planning a trip to Belize and Guatemala.

EDITOR'S NOTES

This is it. My Last Issue. It's been fun. Contact the new editor, Felice Marlbor, at 202-219-0897.

Bill E.



Muhlenberg County, Pennsylvania.

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